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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Long Island Power Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Long Island Power Authority (the Authority), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements as of and for the year ended December 31, 2015, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

PSEG Long Island manages and hosts the Authority's billing and customer information technology systems (CAS & EBO). A significant deficiency was identified over the monitoring controls of access to the development and production environments resulting in the risk that certain individuals could develop changes to the system configuration and put those changes into production without appropriate monitoring or detective controls in place.



Management's Response

During KPMG's audit, a separation of duties deficiency was identified. It is PSEG Long Island's position that the current System Administrator access is a standard practice and required to perform maintenance activities in CAS/EBO. Entitlement reviews within Customer Operations control all CAS/EBO access and validates each user's need with appropriate management. In addition, there are mitigating financial controls that PSEG Long Island's Finance team performs including analytical reviews of monthly revenue variances by customer segment to review variances to plan as well as reviews of customer usage and revenue within Customer Operations.

PSEG Long Island did internally review and confirm that all file access and changes performed by the System Administrators who do have access to both development and production environments are being logged. PSEG Long Island already monitors the daily "RACF Violation" and "Special Access" reports which are captured in the PageCenter tool. Also, all moves from development to production are approved and tracked through the PSEG Long Island change management process.

As a result of the above limited exposure, Information Technology monitoring, and mitigating financial controls, PSEG Long Island views this control deficiency as a low risk to the Authority, however PSEG Long Island has agreed to institute an additional control to monitor System Administrator activity. Our mainframe security team is in the process of documenting a procedure for further monitoring and we are estimating that it will take 30-60 days to have the custom security report in place to support the monitoring of System Administrator activities.

Response to Finding

Management's response to the significant deficiency identified in our audit is described previously. The response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the response.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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New York, NY
March 21, 2016