

Internal Audit Update

Finance & Audit Committee Meeting
December 19, 2017





2016 Audit Plan Status

#	Entity Audited	2016 Audit/Review	Expected Completion Date	Status
1	PSEG LI	Continuous Auditing Processes	3rd Quarter	Completed
2	PSEG LI	2016 Cost Allocations	2nd Quarter	Completed
3	PSEG LI	Customer Refunds	2nd Quarter	Completed
4	PSEG LI	FEMA Project Billing & Close Out	4th Quarter	Reporting
5	PSEG LI	New Business Cycle Time	4th Quarter	Moved to 2017
6	PSEG LI	Purchase Cards	2nd Quarter	Completed
7	PSEG LI	Purchased Power Contract Compliance - Feed In Tariff	2nd Quarter	Completed
8	PSEG LI	Purchased Power Contract Compliance - PPA	3rd Quarter	Completed
9	PSEG LI	SAP Financial Reporting	2nd Quarter	Completed
10	PSEG LI	Storm Invoices 2015	3rd Quarter	Completed
11	PSEG LI	Large Generator Interconnection Agreements*	2nd Quarter	Completed
12	PSEG LI	Operations Services Agreement (OSA) – Days Sales Outstanding Metric*	2nd Quarter	Completed
13	PSEG LI	Operations Services Agreement (OSA) – Net Write Off Per \$100 Billed Revenue Metric*	2nd Quarter	Completed
14	PSEG LI	CGI OMS Over Count and Corrective Action Plan*	3rd Quarter	Completed
15	PSEG LI	2016 OSA Performance Metrics (Interconnection Cycle Time %, Long Term Estimates, % AMI Measured Energy)*	4th Quarter	Completed
16	LIPA	LIPA Internal Control Testing of Key Controls	4th Quarter	Completed
17	LIPA	Minority and Women-Owned Business Enterprises (MWBE) Compliance & Reporting	4th Quarter	Completed
18	LIPA	LIPA Enterprise Risk Management (ERM) Assessment	3rd Quarter	Completed

*Added to 2016 Audit Plan



2017 Audit Plan Status

#	Entity Audited	2017 Audit	Expected Completion Date	Status
1	PSEG LI	2017 Affiliate Cost Allocations	2nd Quarter	In-Progress
2	PSEG LI	2017 A&R OSA Performance Metrics	3rd Quarter	In-Progress
3	PSEG LI	Cross-Application Time Sheet (CATS) Time Reporting	3rd Quarter	Reporting
4	PSEG LI	Customer Rate Assignment & Migration	4th Quarter	In-Progress
5	PSEG LI	FEMA Project Billing & Close Out	4th Quarter	Not Started
6	PSEG LI/NGG	Joint Property Tax Payments and PILOTS	2nd Quarter	Completed
7	PSEG LI	Operating & Capital Budgeting Process	1st Quarter	Completed
8	PSEG LI	New Service Installation Order Process (Customer Order Fulfillment)	2nd Quarter	In-Progress
9	PSEG LI	Street Lighting Billing	3rd Quarter	Deferred
10	PSEG LI	Storm Invoices 2016	4th Quarter	Reporting
11	PSEG LI	PSEG LI Operating Service Agreement (OSA) Metrics Benchmarking	New 1st Quarter 2018	In-Progress
12	LIPA	Cyber Security Review	1st Quarter	Completed
13	LIPA	Debt Management	2nd Quarter	Completed
14	LIPA	LIPA Enterprise Risk Management (ERM) Assessment	4th Quarter	In-Progress
15	LIPA/UDSA NGG	LIPA/UDSA Internal Control Testing of Key Controls	4th Quarter	In-Progress
16	A&R PSA	Pension/OPEB Costs Review	3rd Quarter	Completed

Status of the Implementation of Management's Action Plans



2016			
	# of Observations	# Management Action Plans Completed	# Open Action Items
LIPA Audits of PSEG LI	51	50	1
LIPA Internal Audits	2	2	0
PSEG LI Internal Audits	25	25	0
2017			
	# of Observations	# Management Action Plans Completed	# Open Action Items
LIPA Audits of PSEG LI	8	5	3
LIPA Internal Audits	11	7	4
PSEG LI Internal Audits	15	14	1

Proposed 2018 LIPA Internal Audit Plan

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2018 LIPA Audit Plan

#	Entity	Department	2018 Audit Plan	Audit Objective	Proposed Timing
1	PSEG LI	Business Services	Procurement	Evaluate the adequacy and effectiveness of internal controls and processes in place to support contracting and procurement.	Q2
2	PSEG LI	Customer Services	Customer Credit & Collections	Evaluate the adequacy and effectiveness of internal controls to ensure the efficient, effective and timeliness of customer credit and collection activities.	Q3
3	PSEG LI	Customer Services	Non- Product (Miscellaneous) Billing and Collections	Evaluate the adequacy and effectiveness of internal controls and processes to ensure the completeness, accuracy and timeliness of Non-Product (Miscellaneous) Billing and Collections.	Q3
4	PSEG LI	Entity Wide	A&R OSA Performance Metrics - 2018	Evaluate the completeness and accuracy of the calculation of selected Tier 1 Performance Metrics for compliance with the Amended & Restated Operations Services (OSA) Agreement.	Q4
5	PSEG LI	Entity Wide	Storm Invoices - 2017	Evaluate the adequacy and effectiveness of internal controls to ensure the completeness, accuracy and timeliness of Storm Invoicing.	Q4
6	PSEG LI	T&D	Capital Project Performance	Evaluate the adequacy and effectiveness of internal controls to estimate, track and monitor capital project performance.	Q2
7	NGG	Power Supply Agreement	Power Supply Agreement (PSA)- Property Tax True-Up	Evaluate the accuracy of the PSA Property Tax True up based on the Amended and Restated Power Supply Agreement (PSA) with National Grid Generation LLC.	Q3
8	LIPA	LIPA	Cybersecurity Review	Identify technology-specific technical vulnerabilities and risks in the LIPA cybersecurity environment.	Q1
9	LIPA	LIPA	LIPA Board Policy Governance	Monitor LIPA's compliance and performance with Board Policies.	Q1
10	LIPA	LIPA	LIPA Enterprise Risk Management (ERM) Assessment	Evaluate the adequacy and effectiveness of LIPA's Enterprise Risk Management (ERM) Program.	Q4
11	LIPA/UDSA	LIPA/UDSA	LIPA/UDSA Internal Control Testing of Key Controls	Evaluate the adequacy and effectiveness of key internal controls for LIPA and UDSA's Business Processes.	Q4

PSEG LI Internal Audit Plan 2018

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2018 PSEG LI Audit Plan

#	Company	LOB	Audit Entity	Short Scope Description
1	PSEG LI	Business Services	Purchase Card (P-Card)	Evaluate the adequacy and effectiveness of processes and controls for conformance with the Purchase Card (P-Card) and Storm Card Program (P-Card Program).
2	PSEG LI	Business Services	Fixed Asset Accounting	Evaluate certain key processes pertaining to categorization of work orders between capital and Operations & Maintenance (O&M); Closeout of work orders for completed capital projects, including timely and accurate recording of fixed asset additions and retirements; Calculation of depreciation and Allowance for Funds Used During Construction (AFUDC); Assessment for asset impairments and Asset Retirement Obligations (ARO).
3	PSEG LI	Customer Services	Customer Payment Processing	Evaluate the effectiveness of processes and controls to ensure that customer payments are processed completely, accurately and timely.
4	PSEG LI	Business Services	Business Continuity*	Evaluate emergency management plan for compliance with policies and procedures, applicable laws and regulations, effectiveness of Outage Management System, adequacy of storm response plan.
5	PSEG LI	Transmission & Distribution	Electric Expansion Projects	Evaluate certain key processes within the vendor contract management processes performed by PSEG LI T&D Construction Management and Contract Management.
6	PSEG LI	Customer Services	Meter Inventory Management	Determine whether an accurate physical inventory of meters is maintained, meter calibration tests are performed in accordance with regulatory requirements, meter multipliers are accurate, AMR (Automated Meter Reading) and AMI (Advanced Meter Reading Infrastructure) devices accurately report meter readings, new meter installation process includes collaboration with various areas of the business, and closed accounts with reported advanced consumption are investigated and resolved in a timely manner.
7	PSEG LI	Business Services	Retirement Benefits Administration	Ascertain adequate and effective internal controls are in place regarding the processing and administering of the 401K and Pension Plan.
8	PSEG LI	Business Services	Physical Security	Evaluate the physical security measures in place to prevent, detect and address unauthorized access to PSEG LI facilities.
9	PSEG LI	Customer Services	Energy Service Company (ESCO) Billing	Verify accuracy of bills to energy marketers, compliance with Home Energy Fair Practices Act (HEFPA), accuracy of the calculation of the security deposit if ESCO does not meet the credit worthiness standards.
10	PSEG LI	Business Services	Vendor Contracts	Evaluate PSEGLI's contract management process to assure compliance with contract conditions.

2018 PSEG LI Audit Plan (Continued)

#	Company	LOB	Audit Entity	Short Scope Description
11	PSEG LI	Business Services	Social Media	Evaluate PSEG LI's social media governance, policies, procedures, monitoring, training and awareness functions and processes.
12	PSEG LI	Customer Services	Unmetered Services	Evaluate the controls in place to effectively manage the Unmetered Services process, which primarily includes: public street and highway lighting; miscellaneous service revenue; rent from electric property (e.g., pole attachments); and other electric revenue.
13	PSEG LI	Business Services	Utility Review Board (URB)	Evaluate the adequacy of the documentation and effectiveness of the controls within the URB process.
14	PSEG LI	Transmission & Distribution	Inventory Movement	Evaluate the process and controls in place for the removal of inventory from the warehouse to its destination for usage and tracking of unused items.
15	PSEG LI	Business Services	Contractor Oversight	Evaluate the management and oversight of PSEG LI contractors, including their approval of time sheets, invoices, and contracts.
16	PSEG LI	Business Services	Expenditure Transaction Processing	Evaluate whether expenditure transactions are properly authorized, received, accurately billed by vendors, and accounted for in the appropriate accounting period and classification.
#	Company	Review	Short Scope Description	
1	PSEG LI	Spend Optimization Suite (SOS)	As the SOS process relies on other business areas to be successful, IAS will conduct an end-to-end review to determine the adequacy and effectiveness of controls in place.	
2	PSEG LI	Meter Testing Process	Ensure processes are in place for evaluating whether meters have been programmed correctly to avoid incorrect customer billings.	
3	PSEG LI	Cybersecurity Capability Maturity Model (C2M2)	* Review the metric targets for each domain to determine how they were derived * Review a sample of scorecards and determine the accuracy of the monthly results for each domain	
4	PSEG LI	System Requirements - Metered Energy	Conduct a review of the system requirements amount to determine its accuracy.	
5	PSEG LI	Puerto Rico Effort	Reviews PSEG LI's staff expenses associated with their efforts in Puerto Rico to determine their accuracy, completeness and validity.	

FOR CONSIDERATION

December 19, 2017

TO: The Finance and Audit Committee of the Board of Trustees

FROM: Thomas Falcone

REQUEST: Approval of the 2018 Internal Audit Plan

Requested Action

The Finance and Audit Committee is requested to approve the 2018 Internal Audit Plan (the “Plan”).

Background

In accordance with the International Standards for the Professional Practice of Internal Auditing (the “Standards”), LIPA annually establishes an Internal Audit Plan. The Standards provide in relevant part that the chief audit executive (i.e. the Director of Audit) must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals. Additionally, as set forth in the Standards, the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the Board for review and approval.

Discussion

The 2018 LIPA Internal Audit Plan includes internal audits selected and prioritized based on the results of a risk assessment performed by the LIPA Internal Audit Department, input from various stakeholders, and the PSEG Long Island Internal Audit Department.

The annual goal is to define a plan that reflects adequate coverage across LIPA and PSEG Long Island’s business units and risk areas, to align LIPA’s strategic initiatives and top enterprise risks, and to address the resources necessary to successfully complete the Plan with input from key stakeholders and LIPA senior management.

The Plan includes six audits of PSEG Long Island, one audit of National Grid Generation and four audits of LIPA and the Utility Debt Securitization Authority.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by the adoption of the Resolution in the form attached.

Attachment

Exhibit A Resolution

EXHIBIT A

RESOLUTION APPROVING THE 2018 INTERNAL AUDIT PLAN

RESOLVED, that consistent with the attached memorandum, the Finance and Audit Committee of the Board Trustees hereby approves the 2018 Internal Audit Plan.