



# Utility Debt Securitization Authority

## Audit results

Financial statements for the  
year ended December 31, 2017

March 26, 2018

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# Introduction

## **To the Finance and Audit Committee of the Utility Debt Securitization Authority**

We are pleased to have the opportunity to meet with you on March 26, 2018 to discuss the results of our audit of the financial statements of the Utility Debt Securitization Authority (the Authority) as of and for the year ended December 31, 2017.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan, presented on September 29, 2017. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy.

We expect to be in a position to sign our audit opinion on the Utility Debt Securitization Authority's financial statements on March 26, 2018.

We expect to issue an unqualified Auditor's Report.

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# How we delivered audit quality



# Our audit findings

## Audit Matters

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### Audit risk

Management override of controls

### Risk change

● Consistent

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## Uncorrected audit misstatements

### Understatement/(overstatement)

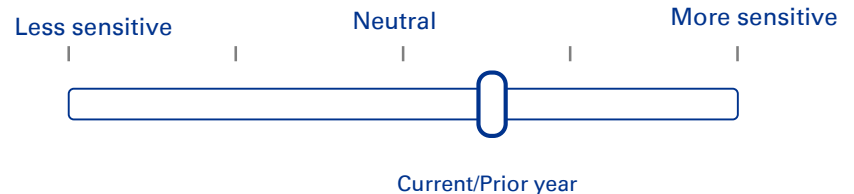
|                      | \$m | % |
|----------------------|-----|---|
| Revenues             | -   | - |
| Profit before tax    | -   | - |
| Total assets         | -   | - |
| Shareholders' equity | -   | - |

## Outstanding matters

- Management representation letter
- Finalize audit report and sign

## Accounting judgments related to estimates

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The engagement team determined there to be no assumptions that were subject to a high degree of subjectivity. After performing procedures over the accounting judgements, the engagement team noted no indicators of management bias and did not identify any disconfirming evidence.

## Control deficiencies

Material weaknesses

0



Skepticism



D&A



Challenge

## 1 Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that appear to be operating correctly.

### Significant risk of fraud

#### The risk

- Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

#### Our response

##### Internal controls

- Assessed management's design and implementation of controls over journal entries and post-closing adjustments
- Assessed management's design and implementation of the review of accounting estimates for evidence of management bias

##### Substantive procedures

- Examine journal entries and other adjustments
- Reviewing accounting estimates for bias
- Evaluating the business purpose for any significant unusual transactions that may have occurred throughout the year
- The engagement team considered the risk of management override of controls related to revenue and noted that the Authority has a very simple revenue process and that revenue recognition is straight forward. Additionally the engagement team confirmed through inquiries that there is no incentive to fraudulently manipulate revenue

##### Our Findings

- The engagement team determined that internal controls over management override are operating effectively as of December 31, 2017.
- The engagement team did not identify instances of fraud as a result of our substantive procedures.



## 2 Unbilled Revenue Estimate

The Authority accrues for unbilled revenue by estimating the unbilled consumption at the customer meter.

### Unbilled Revenue estimate

#### Management process used to develop significant accounting estimate

- The Authority utilizes the Unbilled Revenue Report to determine the unbilled revenue consumption. The consumption amount is then multiplied by the Securitization charge which was approved by the Board.

#### Significant assumptions used that have a high degree of subjectivity

- No assumptions are considered to have a high degree of subjectivity

### Our response

#### Internal controls

- Test of Design and Implementation
  - Control: The unbilled revenue report is reviewed monthly for reasonableness
  - Control: All revenue journal entries are reviewed and approved prior to being recorded to the General Ledger.

#### Substantive procedures

- Unbilled Revenue Substantive Analytical Procedure (SAP)
- Ensured the application of an appropriate and consistent methodology.
- Tested inputs to the calculation and the completeness and accuracy of underlying data in reports used in the estimate.

### Our findings

- KPMG’s testwork over unbilled revenue did not identify any issues with the Unbilled Revenue estimate as of December 31, 2017.
- No disconfirming evidence identified in the performance of our procedures.
- KPMG deems the Unbilled Revenue estimate to be reasonable as of December 31, 2017.
- No indicators of management bias noted.

# Significant accounting practices

| Significant accounting policies and practices | Results of evaluation and conclusions about the qualitative aspects   |
|---|---|
| Revenue recognition                           | <ul style="list-style-type: none"> <li>- Detailed testing of customer bills and servicing charge included on customer bills throughout the year</li> <li>- Recalculated billed and unbilled revenue throughout the year</li> <li>- Tested 100% of the revenue recorded to cash receipts.</li> <li>- Recalculated the revenue allocations from LIPA to UDSA based on LIPA's billed energy usage multiplied by UDSA's securitization charge</li> <li>- Assessed internal controls to ascertain the design and implementation of controls in the Revenue process.</li> </ul> |
| Long-term debt                                | <ul style="list-style-type: none"> <li>- Confirmed outstanding long term debt obligations with third parties</li> <li>- Tested debt classified as due within one year</li> <li>- Recalculated interest expense throughout the year</li> <li>- Recalculated the current year amortization of bond premiums and issuance costs</li> <li>- Tested the bond principle maturity payments to ensure completeness and accuracy</li> </ul>  |
| Restructuring Property                        | <ul style="list-style-type: none"> <li>- Tested the composition summary of the Restructuring Property and verified that the amortization was appropriate as of December 31, 2017</li> <li>- Tested the appropriateness of the presentation on the statement of net position (Noncurrent Assets)</li> </ul>  |

# Significant accounting practices (continued)



## **Concerns regarding application of new accounting pronouncements**

- *No new accounting pronouncements applicable*

## **Recently issued standards (Effective for fiscal years beginning after June 15, 2017)**

- *The UDSA is currently evaluating the impact of these statements and does not expect a material impact upon adoption:*
  - *GASB 85: Omnibus 2017 (effective for periods beginning after June 15, 2017).*
  - *GASB 86: Certain Debt Extinguishment Issues (effective for periods beginning after June 15, 2017).*

## **Significant Accounting Policies**








- Significant accounting policies are disclosed in note 1 of the financials
- We have reviewed the accounting policies utilized by the management in preparation of the financial statements and found such policies to be appropriate.
  - The Financial Reporting Entity – GASB 61
  - Accounting for the effects of rate regulation – GASB 62
  - Items Previously Reported as Assets and Liabilities – GASB 65







## **Unusual transactions**

— *No unusual transactions noted.*



# Required communications and other matters

| Type   | Response  |
|--|---|
| <b>Related parties</b>                         |  All related party transactions have been appropriately identified, accounted for, and disclosed in the financial statements at December 31, 2017, including securitization-related disclosures. |
| <b>Illegal acts or fraud</b>                   |  No Matters to report.   |
| <b>Noncompliance with laws and regulations</b> |  No Matters to report.   |
| <b>Modifications to auditor's report</b>       |  None  |
| <b>Group audit considerations</b>              |  N/A   |
| <b>Subsequent events</b>                       |  None noted.  |
| <b>External confirmations (if relevant)</b>    |  No Matters to report  |

| Type   | Response   |
|--|--|
| <b>Other information</b>   |  None noted.  |
| <b>Significant difficulties encountered during the audit</b>                       |  No matters to report.                                |
| <b>Disagreements with management or scope limitations</b>                          |  No matters to report.                                |
| <b>Management's consultation with other accountants</b>                            |  No matters to report.                                |
| <b>Significant issues discussed, or subject to correspondence with, management</b> |  No matters to report.                                |
| <b>Difficult or contentious matters for which the auditors consulted</b>           |  No matters to report.                                |
| <b>Material Written Communications between KPMG and Management</b>                 |  Engagement letter & Management representation letter |
| <b>Other matters (if relevant)</b>   |  None noted.  |



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