

## **FOR CONSIDERATION**

July 25, 2018

**TO:** The Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Consideration of Approval of an Amended Board Policy on Audit Relationships

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### Requested Action

The Board of Trustees of the Long Island Power Authority (the “Authority”) is requested to adopt a resolution approving an amended Board Policy on Audit Relationships, as further described below.

### Board Policy on Audit Relationships

The Finance & Audit Committee of the Authority’s Board of Trustees, in its charter, was delegated the responsibility of reviewing the Authority’s policies regarding Audit Relationships.

This proposed Board Policy on Audit Relationships defines the expectations of the Board regarding the existing authority granted to the Finance & Audit Committee for:

- Selecting an independent certified public accounting firm to conduct annual audits of the Authority.
- The annual review of the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and confirming the independence of the internal auditors.
- Monitoring, in consultation with the Vice President - Audit, the significant findings of internal audit reports and the status of the implementation of management’s action plans in response to such audit findings.
- Setting forth the procedures for the Board of Trustee’s receipt, review and implementation of any recommendations in a Management and Operations Audit conducted by the New York State Department of Public Service (“DPS”).

### Proposed Changes to Board Policy

The proposed changes to the Board Policy are intended to reflect, in more detail, the procedures relating to the implementation of the management action plans of a DPS Management and Operations Audit, in conformance with Recommendations #2 and #3 of the 2018 Audit.

Specifically, the changes include, among others:

- (i) Clarifying that DPS is only delivering to the Board a report of its findings together with any recommendation of improvement. DPS does not deliver a timetable for implementation of recommendations;
- (ii) Consistent with the Management and Operations Audit, clarifying that the Chief Executive Officer will submit the implementation plan to the Oversight Committee of the Board within ninety (90) days after the audit report's finalization;
- (iii) Providing that the Authority's Chief Executive Officer, together with PSEG Long Island, will submit an annual report to the Oversight Committee of the Board and the Department of Public Service, of the status of the implementation plan. That report will include a summary of the activities completed to date and any revisions to completion targets. The annual report will be reviewed by Internal Audit for completeness prior to submission; and
- (iv) Providing that LIPA Internal Audit will review the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the plan for that recommendation.

A redline copy of the changes is included as Attachment A-1 Board Policy on Audit Relationships.

Recommendation

Based upon the foregoing, I recommend the approval of the adoption of the resolution in the form attached hereto as Exhibit A.

Attachment

Exhibit A Resolution Approving Amendments to the Long Island Power Authority Board Policy on Audit Relationships.

**RESOLUTION APPROVING AMENDMENTS TO THE LONG ISLAND POWER  
AUTHORITY BOARD POLICY ON AUDIT RELATIONSHIPS**

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WHEREAS, the Board of Trustees of Long Island Power Authority (the “Authority”) oversees the management of the Authority, the contractual relationship with the Authority’s Service Provider, and fulfillment of the Authority’s mission; and

WHEREAS, as stewards of the Authority, the Trustees are responsible for setting the Authority’s audit relationship policy and overseeing its fulfillment; and

WHEREAS, the Finance & Audit Committee of the Authority’s Board of Trustees, in its charter, was delegated the responsibility of reviewing the Authority’s policies regarding Audit Relationships;

WHEREAS, in the Authority’s By-Laws, the Authority’s Board of Trustees delegated certain responsibilities to the Chief Executive Officer for managing and directing the staff of the Authority; and

WHEREAS, policies addressing audit relationships have been recommended by the Finance & Audit Committee for adoption by the Board, in accordance with this process;

NOW, THEREFORE, BE IT IS RESOLVED, that the Trustees hereby approve and adopt the amended Policy on Audit Relationships in the form attached to this resolution; and

BE IT FURTHER RESOLVED, that the Policy on Audit Relationships be subject to annual review and evaluation by the Finance & Audit Committee in accordance with the accompanying memorandum.

Attachment A-1 Amended Board Policy on Audit Relationships – redline  
Attachment A-2 Amended Board Policy on Audit Relationships – clean

Dated: July 25, 2018

Board Policy:	<b>Audit Relationships</b>
Policy Type:	<b>Governance Process</b>
Monitored by:	<b>Finance and Audit Committee</b>
Board Resolution:	<b>#1355, approved March 29, 2017 #1410, amended March 29, 2018</b>




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## **Board Policy on Audit Relationships**

The Board of Trustees shall do the following regarding the independent external auditor, the internal auditors of the Authority, and management and operations audits of the Department of Public Service.

### **Independent External Auditor**

- The Board of Trustees, on the recommendation of the Finance and Audit Committee, will select an independent certified public accounting firm to conduct annual audits of the Authority. The Board will make the choice of the external auditor based on advice from staff and others as it deems necessary to exercise prudent, independent judgement.
- The Finance and Audit Committee will annually review the audit services to be performed by such independent auditor, including the scope, fees and terms thereof and all relationships between the auditor and the Authority.
- The Finance and Audit Committee will meet each year with the external auditors at the commencement of the annual audit and again after the audit is complete. The meeting at the completion of the audit will be independent of staff. The Committee members will report any significant findings to the Board in a timely manner.

### **Internal Auditors**

The Authority's internal auditors provide independent, objective assurance and consulting services to the Board and management designed to improve the organization's operations, risk management, control, and governance processes.

- The internal auditors shall conduct audits as identified in the annual audit plan as well as special projects as requested by the Finance and Audit Committee, acting as a whole, or management.
- The annual audit plan will include audits of the Authority and its service providers, and the internal auditors shall have unlimited access to all activities, records, property, and personnel of the Authority and its service providers in the performance of their duties.
- The Finance and Audit Committee will annually review and provide guidance on the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and will confirm the independence of the internal auditors. The ~~Director of~~ Vice President - Audit shall administratively report to the Chief Executive Officer.

- The Finance and Audit Committee will monitor, in consultation with the ~~Director of Vice President -~~ Audit, the significant findings of internal audit reports and the status of the implementation of management's action plans in response to such audit findings.
- The Finance and Audit Committee will meet at least twice per year with the ~~Director of Vice President -~~ Audit independent of other Authority staff and will report any significant internal audit findings to the Board in a timely manner.

## Management and Operations Audits

The LIPA Reform Act (the "Act") directs the Department of Public Service to conduct comprehensive management and operations audits of the Authority and PSEG Long Island at least once every five years.

Upon completion of an audit, the Department of Public Service must deliver to the LIPA Board a report of its findings together with any recommendations for improvements, ~~and a timetable for implementation of those recommendations~~. Absent a preliminary finding of inconsistency made by the Board, under the procedures set forth in the Act, the audit report's recommendations ~~and timetables~~ become final 30 days after receipt by the Board.

~~Thirty~~Ninety days after the audit report's finalization, the ~~staff of the~~ Authority's Chief Executive Officer, in coordination with PSEG Long Island, shall submit an implementation plan to the Oversight Committee of the Board to effectuate the audit's recommendations.

Thereafter, the Authority's Chief Executive Officer, together with PSEG Long Island, will submit an annual report to the Oversight Committee of the Board and the Department of Public Service, of the status of the implementation plan. That annual report will include a summary of the activities completed to date and any revisions to completion targets. The annual report will be reviewed by Internal Audit for completeness prior to submission. The Oversight Committee will report significant matters to the Board.

Internal Audit will review the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the plan for that recommendation.

~~The Authority's Chief Executive Officer shall report to the Oversight Committee on progress toward the planned implementation plan in accordance with the timetables set forth in the implementation plan, and the Oversight Committee will report any significant implementation matters to the Board in a timely manner.~~

Board Policy:	<b>Audit Relationships</b>
Policy Type:	<b>Governance Process</b>
Monitored by:	<b>Finance and Audit Committee</b>
Board Resolution:	<b>#1355, approved March 29, 2017</b> <b>#1410, amended March 29, 2018</b>




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### **Independent External Auditor**

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- The Finance and Audit Committee will annually review the audit services to be performed by such independent auditor, including the scope, fees and terms thereof and all relationships between the auditor and the Authority.
- The Finance and Audit Committee will meet each year with the external auditors at the commencement of the annual audit and again after the audit is complete. The meeting at the completion of the audit will be independent of staff. The Committee members will report any significant findings to the Board in a timely manner.

### **Internal Auditors**

The Authority's internal auditors provide independent, objective assurance and consulting services to the Board and management designed to improve the organization's operations, risk management, control, and governance processes.

- The internal auditors shall conduct audits as identified in the annual audit plan as well as special projects as requested by the Finance and Audit Committee, acting as a whole, or management.
- The annual audit plan will include audits of the Authority and its service providers, and the internal auditors shall have unlimited access to all activities, records, property, and personnel of the Authority and its service providers in the performance of their duties.
- The Finance and Audit Committee will annually review and provide guidance on the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and will confirm the independence of the internal auditors. The Director of Audit shall administratively report to the Chief Executive Officer.

- The Finance and Audit Committee will monitor, in consultation with the Director of Audit, the significant findings of internal audit reports and the status of the implementation of management's action plans in response to such audit findings.
- The Finance and Audit Committee will meet at least twice per year with the Director of Audit independent of other Authority staff and will report any significant internal audit findings to the Board in a timely manner.

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Upon completion of an audit, the Department of Public Service must deliver to the LIPA Board a report of its findings together with any recommendations for improvements. Absent a preliminary finding of inconsistency made by the Board, under the procedures set forth in the Act, the audit report's recommendations become final 30 days after receipt by the Board.

Ninety days after the audit report's finalization, the Authority's Chief Executive Officer, in coordination with PSEG Long Island, shall submit an implementation plan to the Oversight Committee of the Board to effectuate the audit's recommendations.

Thereafter, the Authority's Chief Executive Officer, together with PSEG Long Island, will submit an annual report to the Oversight Committee of the Board and the Department of Public Service of the status of the implementation plan. That annual report will include a summary of the activities completed to date and any revisions to completion targets. The annual report will be reviewed by Internal Audit for completeness prior to submission. The Oversight Committee will report significant matters to the Board.

Internal Audit will review the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the plan for that recommendation.