



# Internal Audit Update

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Finance & Audit Committee

December 19, 2018

# 2018 Audit Plan Status

#	Entity	2018 Audit Plan	Proposed Timing	Status
1	PSEG LI	Procurement	Q2	Completed
2	PSEG LI	Customer Credit & Collections	Q3	Reporting
3	PSEG LI	Non- Product (Miscellaneous) Billing	Q3	Completed
4	PSEG LI	A&R Operations Services Agreement (OSA) Performance Metrics – 2018	Q4	Reporting
5	PSEG LI	Storm Invoices - 2017	Q4	Completed
6	PSEG LI	A&R Operations Services Agreement (OSA) Metrics Benchmarking	Q2	Reporting
7	PSEG LI	Capital Project Performance	Q2	Deferred
8	NGG	Power Supply Agreement (PSA)- Property Tax True-Up	Q3	Completed
9	LIPA	Cybersecurity and Data Back-up and Recovery Review	Q3	In - Progress
10	LIPA	LIPA Board Policy Governance	Q1	Completed
11	LIPA	LIPA Enterprise Risk Management (ERM) Assessment	Q4	Cancelled
12	LIPA/UDSA	LIPA/UDSA Internal Control Testing of Key Controls	Q4	Completed

# Status of the Implementation of Management's Action Plans

2016			
	# of Audit Observations	# Management Action Plans in Response to Audit Observations Completed	# Management Action Plans in Response to Audit Observations Open
LIPA Audits of PSEG LI	51	50	1
LIPA Internal Audits	2	2	0
PSEG LI Internal Audits	25	25	0
2017			
	# of Audit Observations	# Management Action Plans in Response to Audit Observations Completed	# Management Action Plans in Response to Audit Observations Open
LIPA Audits of PSEG LI	34	30	4
LIPA Internal Audits	11	7	4
PSEG LI Internal Audits	19	17	2
2018			
	# of Audit Observations	# Management Action Plans in Response to Audit Observations Completed	# Management Action Plans in Response to Audit Observations Open
LIPA Audits of PSEG LI	5	2	3
LIPA Internal Audits	2	0	2
PSEG LI Internal Audits	17	10	7

## **FOR CONSIDERATION**

December 19, 2018

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

**FROM:** Thomas Falcone

**REQUEST:** Approval of the 2019 LIPA Internal Audit Plan

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### **Requested Action**

The Finance and Audit Committee is requested to approve the 2019 LIPA Internal Audit Plan (the “Plan”), as shown on **Exhibit “B”**.

### **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 Vice President - 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 2019 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 eleven (11) audits and reviews of PSEG Long Island, two (2) audits of LIPA and the Utility Debt Securitization Authority and audits of the completed 2018 Management & Operations Audit Implementation Plans.

Additionally, for informational purposes, attached as **Exhibit “C”**, is the 2019 Proposed PSEG Long Island Internal Audit Plan.

### **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

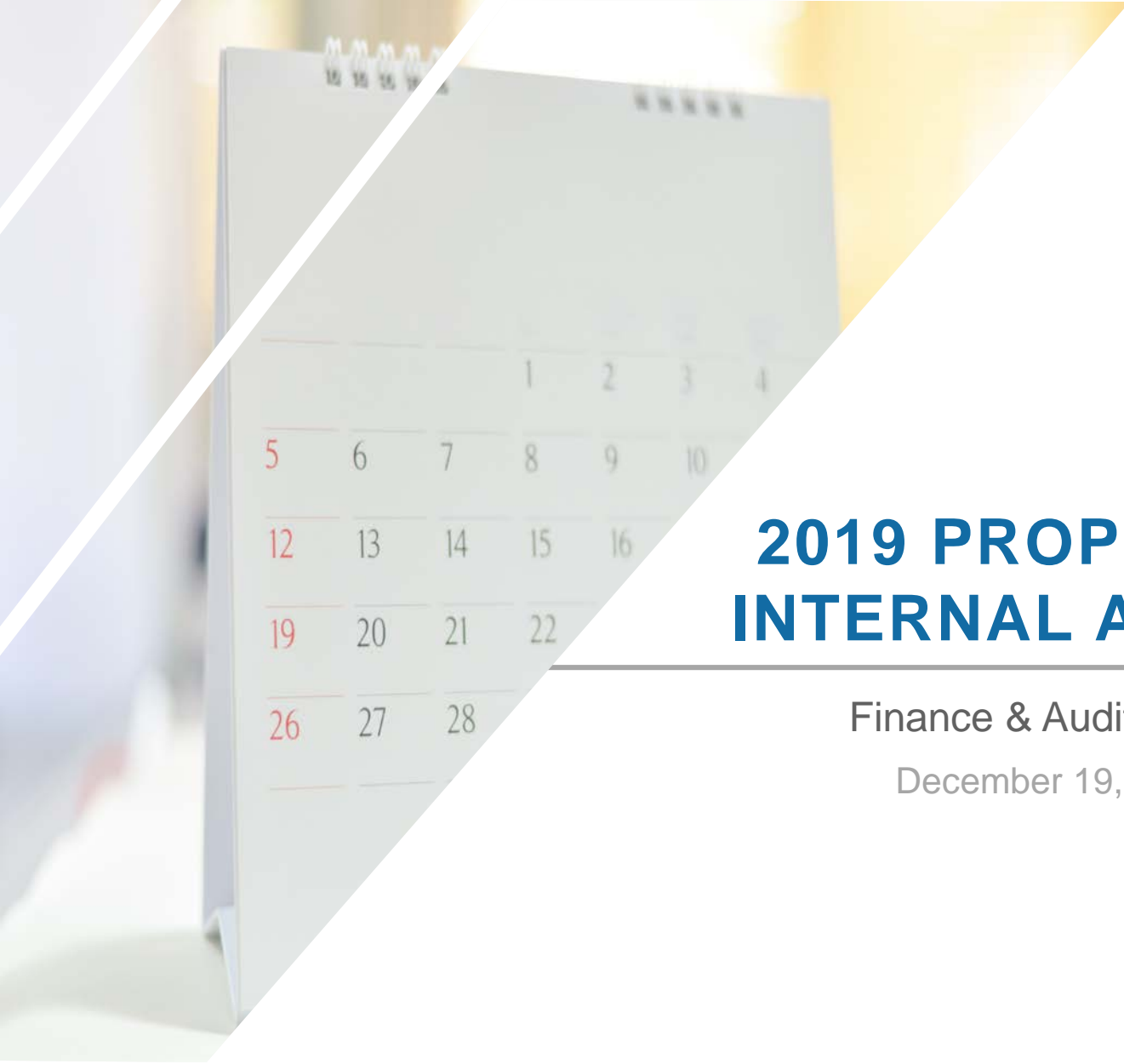
**Exhibit "B"** 2019 Proposed LIPA Internal Audit Plan

**Exhibit "C"** 2019 Proposed PSEG Long Island Audit Plan

**EXHIBIT A**

**RESOLUTION APPROVING THE 2019 INTERNAL AUDIT PLAN**

**RESOLVED**, that consistent with the attached memorandum, the Finance and Audit Committee of the Board Trustees hereby approves the 2019 Internal Audit Plan.



# 2019 PROPOSED LIPA INTERNAL AUDIT PLAN

Finance & Audit Committee

December 19, 2018

# 2019 Proposed LIPA Internal Audit Plan

#	Entity	Business Unit	Audit/Review	2019 Audit Plan	Audit Objective	Proposed Timing
1	PSEG LI	Business Services	Audit	Fleet Asset Management	Evaluate the adequacy and operating effectiveness of processes and controls within the management and operations of PSEG Long Island Fleet.	2nd Qtr
2	PSEG LI	Customer Services	Audit	Customer Refunds	Evaluate the accuracy of the authorization, initiation, recording and reporting of PSEG LI system-generated and manual check request customer refunds.	3rd Qtr
3	PSEG LI	Customer Services	Audit	Customer Data Protection	Evaluate the adequacy and operating effectiveness of processes and controls for Customer Data Protection.	2nd Qtr
4	PSEG LI	Customer Services	Review	Dynamic Load Management Program	Evaluate the adequacy and effectiveness of internal controls for the Dynamic Load Management Program.	3rd Qtr
5	PSEG LI	Entity-Wide	Audit	2019 A&R Operations Services Agreement (OSA) Metrics	Evaluate the completeness and accuracy of the calculation of selected Tier 1 Performance Metrics for compliance with the Amended & Restated Operations Services (OSA) Agreement.	3rd Qtr
6	PSEG LI	Entity-Wide	Review	Revenue Assurance (5-Pack Review)	Perform five revenue assurance reviews.	1st - 4th Qtrs
7	PSEG	ER&T	Review	Power Supply Natural Gas Invoices	Evaluate the adequacy and effectiveness of internal controls to ensure the completeness and accuracy of Natural Gas Invoicing.	1st Qtr
8	PSEG LI	Power Markets	Review	Solar Liberty Feed-In Tariff Purchase Power Agreement	Evaluate the adequacy and effectiveness of internal controls over the contract administration and payment.	1st Qtr
9	PSEG LI	Power Markets	Review	Power Supply Invoices - Start -Up Fees	Evaluate the adequacy and effectiveness of internal controls to ensure the accuracy of Start Up Fees for Power Supply Invoices.	1st Qtr
10	PSEG LI	Power Markets	Review	Purchase Power Agreement - Service Agreement True-Ups	Evaluate the adequacy and effectiveness of internal controls to ensure the completeness, accuracy and timeliness of Purchase Power Agreement Service Agreement True-Ups.	4th Qtr
11	PSEG LI	T&D	Audit	Electric Infrastructure Maintenance	Evaluate the adequacy and operating effectiveness of processes and controls covering maintenance of LIPA's Inside Plant electric infrastructure.	1st Qtr
12	LIPA & PSEG LI	LIPA & PSEG LI	Audit	NorthStar Management Action Plans Audit	Audit of the completed NorthStar Management Audit Action Plans.	1st - 4th Qtrs
13	LIPA	LIPA	Audit	Cybersecurity	Perform an assessment of the operating effectiveness of LIPA's Cybersecurity Policies and Procedures.	4th Qtr
14	LIPA & UDSA	LIPA & UDSA	Audit	LIPA & UDSA Internal Control Testing	Evaluate the adequacy and effectiveness of key internal controls for LIPA and UDSA's Business Processes.	4th Qtr





# 2019 PSEG Long Island Proposed Audit Plan

Finance & Audit Committee

December 19, 2018

# 2019 PSEG Long Island Internal Audit Plan- Audits

#	LOB	Audit Entity	Scope Description
1	T&D	Fixed Asset Reporting	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).
2	T&D	Vegetation Management	Evaluate controls in place to plan, track and manage vegetation management activities, including compliance with applicable laws and regulations.
3	Customer Services	Customer Billing	Evaluate the design and effectiveness of processes and controls to ensure accuracy, completeness and validity of billing calculations, timely handling of billing exceptions, authorized changes to Customer Accounting System (CAS), accuracy of recording of accounts receivable in SAP, and key spreadsheets are protected.
4	Business Services	Storm Compliance	Ensure the validity of storm costs and that they were properly billed to LIPA. Additionally, ensure policies and procedures are in place, that they are current, and that they are being adhered to.
5	Business Services	Health & Welfare Benefits Administration	Ensure the integrity of the PSEG LI benefits program and review member eligibility to ascertain there is oversight by HR of the various third party service provider contracts.
6	Business Services	Travel & Business Expense Reimbursements	Ensure adherence with the Travel & Business Expense Reimbursement Policy, including reasonableness of the expenses, adequacy of supporting documentation, and approval of the charges prior to payment.

# 2019 PSEG Long Island Internal Audit Plan (continued)

#	LOB	Audit Entity	Scope Description
7	Business Services	Time Sheet Management	Evaluate certain key processes involved with time sheet management for PSEG LI, including recording and approval of time in SAP, accounting for time charged, change management and training.
8	T&D	Spend Optimization Suite (SOS)	Review roles and responsibilities for investment data entry into SOS, information and scoring questions in the Investment Definition and Scoring (IDS) module, processes for approving & managing SOS access (entitlement reviews), training of SOS users, completeness, accuracy and consistency of SOS data.
9	Customer Services	Customer Operations - Complaints	Perform testing for compliance with NorthStar's recommendations, including: use of a checklist to verify documentation for a complaint case; an integrated program management approach is in use to ensure customers are provided with information on available assistance programs; all complaints are tracked and processed and resolved timely; implementation of a Quality Assurance Program in Customer Relations to verify complaints are handled in accordance with DPS requirements.
10	Customer Services	Revenue Integrity*	Review current business processes and controls within this area.
11	T&D	Environmental Permitting	Review written process documentation for the different job types and associated notification requirements; assess operating effectiveness of process improvements made subsequent to the formal investigation; review automated controls in SAP re: release of jobs to construction, including capture of construction start date in SAP; review process for tracking environmental permitting reviews.
* Quick Impact Audit			

# 2019 PSEG Long Island Internal Audit Plan (continued)

#	LOB	Audit Entity	Scope Description
12	T&D	Project Planning and Management	Review process for capital project creation, project management processes, project scheduling, estimating, and compliance with NorthStar recommendations and improvement actions.
13	T&D	Work Management	Ascertain that an integrated work management system is in place and there is a full compliment of staff to support it; ensure there is an easy-to-use format for employees and contractors; ensure there is real-time reporting of capacity utilization; that processes for establishing workforce levels and criteria for adding contractor capacity are in place; there are reports on trends in work load levels, workforce productivity and utilization; there are formal work management practices in engineering and design.
14	T&D	NorthStar	Ascertain that the the recommendations provided in the NorthStar Management Audit Report have been satisfactorily addressed by the business.
15	Business Services	Outreach and Communications	Ensure capital project outreach efforts are cost-efficient, on target and achieving results; evaluate the use and effectiveness of communications with customers on scheduled tree trim routes; determine the effectiveness of outreach efforts for the energy efficiency and low-income program; ensure the process for determining the outreach budgets for capital projects has been formalized; determine whether the External Affairs Handbook has been properly updated and that the External Affairs' training program has been formalized; ensure all meetings with impacted officials are documented; determine whether capital project-related outreach efforts provide specific details regarding the work performed.
16	Customer Services	Advanced Meter Infrastructure (AMI)	Evaluate the AMI implementation/rollout, including controls over deployment and setup of meters, Back Office architecture / support, and data security and usage.

# 2019 PSEG Long Island Internal Audit Plan - Reviews

#	Review	Description
1	Background Checks	<ul style="list-style-type: none"> <li>• Ensure background checks are conducted on new hires and contractors</li> <li>• Ascertain appropriate measures are in place for addressing failed background checks, including potential for rescinding job offer</li> <li>• Ensure compliance with federal and state laws and adoption of industry best practice</li> </ul>
2	Asset Inventory	The A&R OSA stipulates PSEG LI will provide LIPA on an annual basis: i) An annual audit of capital improvement made in the prior contract year. The audit scope shall include the accuracy of plant records, maps, and asset maintenance databases. ii) Physical inventory of all capital assets from time to time. iii) Starting in 2019, PSEG LI Project Management Office, Training Support & Contract Services, and the Electric East & West Divisions will prepare a list of capital projects implemented in the prior year. Internal Audit will select a sample of projects from the listings and test to ascertain they are properly reflected in the appropriate systems.
3	Emergency Response Training	Ascertain that Emergency Response Training has been completed for all employees, as required. In addition, ensure the Emergency Response Training in the ERP has been updated to identify the type of training and frequency by position.
4	PV Net Strings Process	Review to ascertain proper controls are in place as the process involves interaction with external organizations.
5	Purchase and Storm Cards (Continuous Auditing)	Select a sample of transactions and test for appropriateness and compliance with the Purchase and Storm Card Program.