

Long Island Power Authority (LIPA) 2018 Internal Control Assessment

This report summarizes LIPA's assessment of its internal control structure and procedures, as required by Section 2800(a) of the Public Authorities Law, and its compliance with requirements of the New York State Internal Control Act.

This statement certifies that LIPA followed a process that assessed and documented the adequacy of its internal control structure and policies for the year ending December 31, 2018. To the extent that deficiencies were identified, LIPA has developed corrective action plans to reduce any corresponding risk.

A. Establish and maintain guidelines for a system of internal controls for the authority.

Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the agency head's support of internal controls to provide staff with an understanding of the benefits of effective controls;
2. Identify the agency's primary responsibilities and the objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of agency management and supervisors and agency staff;
5. Acknowledge that internal controls adhere to accepted standards; and,
6. Describe the organization's process for evaluating internal controls.

For this requirement, LIPA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions LIPA has taken to comply with this requirement.

LIPA maintains an Internal Control Manual, available to all staff on its intranet site, summarizing internal control policies and procedures, including those for internal control review.

LIPA's Chief Executive Officer (CEO) reinforces the importance of the internal control program by sending a written communication to all staff detailing the purpose and importance of LIPA's internal control program; the expectation for each employee's understanding, participation and compliance with the program; and the expectation that employees remain alert for possible violations of law, policy or public trust within LIPA and to promptly report such violations to appropriate internal management personnel.

Annually LIPA develops a work plan and also maintains oversight plans identifying the Authority's objectives for oversight of its Service Provider, PSEG Long Island. Included in its plan are departmental goals and their expectations.

In addition, LIPA continuously reviews and updates its policies and procedure documents to ensure the controls address all areas of concern. Throughout the year, the importance of internal control

activities is communicated to management and staff in many formal and informal manners. Weekly senior staff meetings are held and periodic full staff meetings are held to discuss various matters including the importance of internal controls.

B. Establish and maintain a system of internal controls and a program of internal control review for the agency or authority.

The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, risk assessment, control activities, information and communication and monitoring.

The program of internal control review shall be a structured, continuing and well documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the agency's or authority's internal controls.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the agency or authority;
2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions;
3. Identify/document the policies and procedures used to execute functions;
4. Identify the major functions of each of the agency's assessable units;
5. Develop a process or cycle to assess risk and test controls for major functions;
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions;
7. Test controls to ensure they are working as intended (see the "Manager's Testing Guide" which can be downloaded from BPRM Item B-350);
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions.

For this requirement, LIPA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions LIPA has taken to comply with this requirement.

Annually the Authority, during its strategic planning activities updates its planning efforts which align the Authority's goals with the Authority's Board approved policies. This workplan ensures each departmental area has clearly identified responsibilities and objectives. Annually these workplans are presented to the Board as required under the Public Authorities Law for public authority missions and performance results reporting.

LIPA also regularly reviews its internal control system and its policies and procedures. These reviews occur through an ongoing process of updating existing policies and procedures ensuring that LIPA's programs and support functions operate as efficiently as possible, while still maintaining appropriate safeguards. LIPA maintains its policy manuals online in its networked computer system and through an internally-accessible intranet site to assist in searching relevant sections. The manuals are protected to enable most staff to read and print materials as needed, but to prevent inadvertent changes or deletions. Staff who are responsible for updating the policies have access to these documents.

Furthermore, LIPA's internal audit activities plays an important role in the internal control program. The Vice President-Audit works with executive management and the Finance and Audit Committee to establish an annual audit plan. Audit plans and subsequent results are reported to the Finance and Audit Committee after observations are communicated to senior management. Annually the internal audit department selects as part of its audit plan, control testing to determine whether controls are adequate and being adhered to. When an exception to the system of internal controls is identified, the exception is provided to the Internal Control Officer. The Internal Control Officer reviews such exception or deficiency, determines its cause, consider what changes in control systems are necessary for preventing future exceptions (or improving such deficiency). Recommendations for any changes to policies to address issues are provided to the Vice President-Audit for discussion. The 2018 internal audit findings were insignificant in nature and improved processes were implemented to address those findings during the year or subsequent to year-end.

Finally, the Authority also has a dedicated Enterprise Risk Management group to identify operating and other risks within each business unit and assist such business units in developing an ongoing risk identification, monitoring and mitigation program. Risks have been identified for all departments and applicable key risk indicators have been developed, if necessary.

C. Make available to each officer and employee of the agency or authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such agency or authority shall be expected to comply along with detailed policies and procedures the employees are expected to adhere to in completing their work. The statement should set the tone at the top. It should be issued periodically and emphasize the importance of effective internal controls to the agency or authority and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

For this requirement, LIPA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions LIPA has taken to comply with this requirement.

As previously described, all LIPA policy and procedure manuals, guides and handbooks are posted on an intranet site available to all staff. New employees are also provided with an employee handbook which they are required to review and certify completion of upon hire.

In 2017, the Authority implemented a new evaluation platform whereby employees have online access to their performance evaluations. Employees are able to review job descriptions. Managers are required to review job descriptions annually and update, if deemed necessary, and employees receive performance evaluations with clear and concise goals that align with LIPA's overall mission and objectives. All employees are required to sign these evaluations to ensure they have read and understood expectations. In addition, the new platform requires employees to review their goal status periodically.

D. Designate an Internal Control Officer (ICO), who shall report to the head of the agency or authority or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees.

The ICO works with appropriate personnel within the agency or authority to coordinate the internal control activities and to help ensure that the internal control program meets applicable requirements. Although the ICO evaluates the adequacy of the internal control reviews performed by agency or authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. This individual should have a broad knowledge of agency operations, personnel and policy objectives.

For this requirement, LIPA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions LIPA has taken to comply with this requirement.

Donna Mongiardo was appointed Internal Control Officer in March 2016. Donna Mongiardo also serves as Vice President-Controller, providing sufficient authority to appropriately implement internal control responsibilities within the organization.

E. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Authorities should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions, training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

For this requirement, LIPA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions LIPA has taken to comply with this requirement.

LIPA maintains an Internal Control Manual on its intranet for all employees to access (which includes the State Internal Control Standards), and also provides online access to all other policy and procedure manuals. These policy manuals provide a foundation for all employees to ensure that they are familiar with internal control concepts and LIPA's internal control related programs, policies and procedures.

LIPA also provides, annually, the New York State on-line internal control training program (i.e., Grovo). Furthermore, LIPA regularly holds educational full staff meeting to educate employees on continuing projects and potential risks.

F. Periodically evaluate the need for an internal audit (IA) function. If an IA function exists, it should be maintained in compliance with generally accepted professional auditing standards. Agencies on the Division of the Budget's list of agencies required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (see BPRM Item B-350 Section III "IA Responsibilities").

An internal audit unit should comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Therefore, IA units should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the agency head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the agency head.
2. A current organizational chart should be available that identifies the placement of the IA unit, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under its purview.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Agencies should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA units should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).
4. Internal audit staff should complete an annual independence statement identifying actual/potential impairments to independence and notifying the DIA whenever a new actual/potential impairment arises.
5. At a minimum, DIAs should hold quarterly meetings with agency executive management and the audit committee, where applicable, to report on audit results. Final reports should be distributed to the agency head, executive deputy, auditee, ICO and the audit committee.
6. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required and that the size of the audit staff is

- appropriate given the size and complexity of the organization.
7. All units should take steps to ensure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

For this requirement, LIPA is:

Fully Compliant **Partially Compliant** **Not Compliant**

Following is a summary of some of the specific actions LIPA has taken to comply with this requirement:

LIPA's Board of Trustees (Board) appointed Kathleen Mitterway as Vice President-Audit. The Vice-President-Audit reports directly to the Finance and Audit Committee of the Board for work activities, but reports to the CEO for administrative matters. The Internal Audit department also has three additional staff positions. The Internal Audit function has no duties which compromise its independence.

Ms. Mitterway has a Bachelor's of Science in Accounting and a Master of Business Administration from St. John's University and has over 30 years of auditing, accounting and financial work experience. Ms. Mitterway is a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), and a Chartered Global Management Accountant (CGMA). Ms. Mitterway meets continuing professional education by attending and occasionally presenting training courses.

LIPA will complete a quality assurance review of Internal Audit activities by an external reviewer during 2019, consistent with requirements in internal auditing standards to be performed at least once every five years.

LIPA's internal auditors provides independent, objective assurance and consulting services to the Board of Trustees 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 LIPA, UDSA (LIPA's component unit) and its Service Provider, PSEG Long Island and the internal auditors has unlimited access to all activities, records, property, and personnel of LIPA and PSEG Long Island in the performance of their duties.

The Finance and Audit Committee annually reviews and provides 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 Committee monitors, 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.

For 2018 completed audits, management has provided Internal Audit with improved process flows and implemented these processes.