



# INTERNAL AUDIT UPDATE

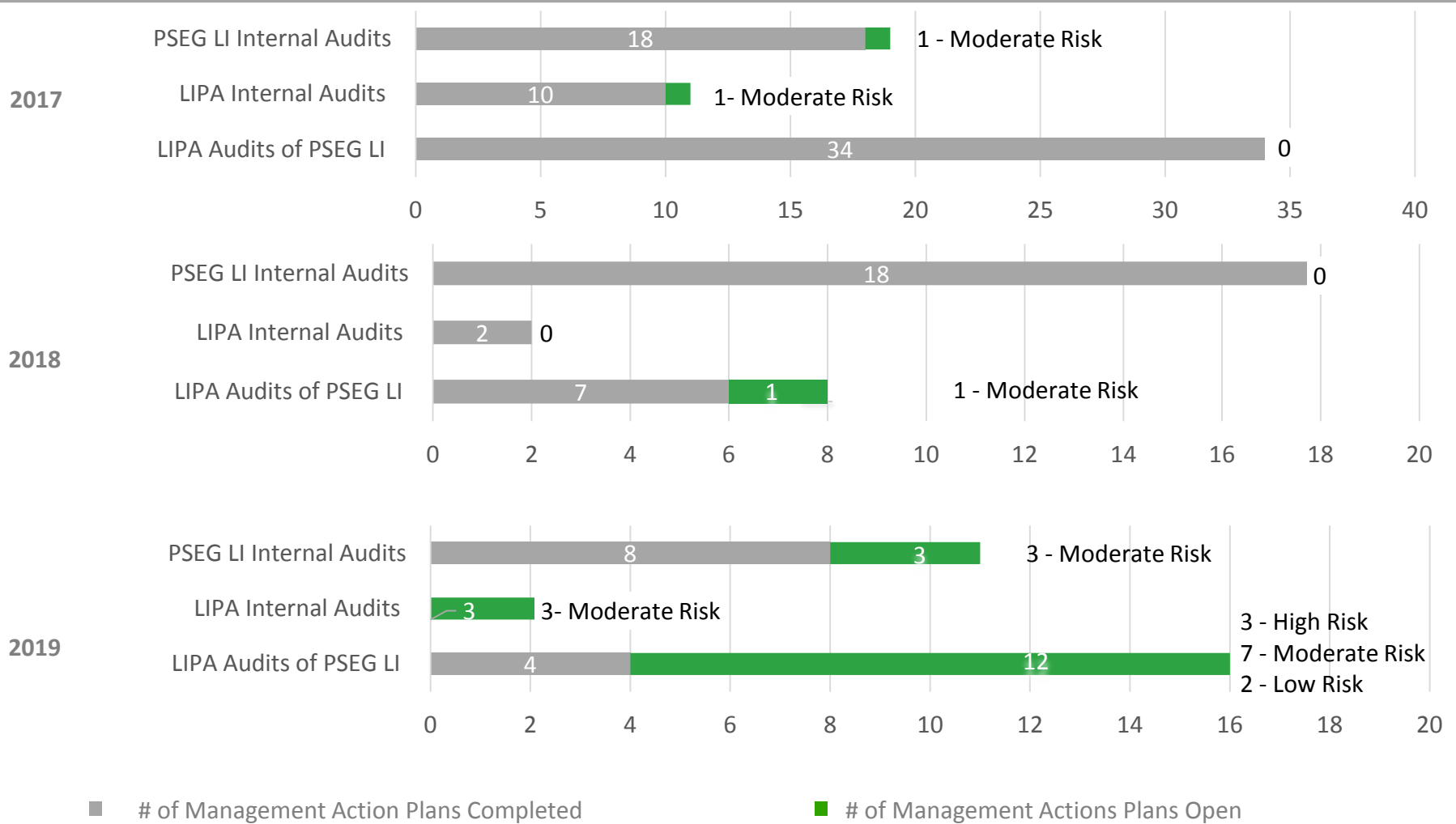
Finance & Audit Committee

December 18, 2019

# 2019 AUDIT PLAN STATUS

#	Entity	Audit/Review	2019 Audit Plan	Proposed Timing	Status
1	PSEG LI	Audit	Fleet Asset Management	2nd Qtr	Completed
2	PSEG LI	Audit	Customer Refunds	3rd Qtr	Completed
3	PSEG LI	Audit	Customer Data Protection	2nd Qtr	Completed
4	PSEG LI	Review	Dynamic Load Management Program	3rd Qtr	Completed
5	PSEG LI	Audit	2019 A&R Operations Services Agreement (OSA) Metrics	3rd Qtr	Reporting
6	PSEG LI	Review	Revenue Assurance (5-Pack Review)	1st - 4th Qtrs	Reporting
7	PSEG	Review	Power Supply Natural Gas Invoices	1st Qtr	Completed
8	PSEG LI	Review	Solar Liberty Feed-In Tariff Purchase Power Agreement	1st Qtr	Completed
9	PSEG LI	Review	Power Supply Invoices - Start -Up Fees	1st Qtr	Completed
10	PSEG LI	Review	Purchase Power Agreement - Service Agreement True-Ups	4th Qtr	Completed
11	PSEG LI	Audit	Electric Infrastructure Maintenance	1st Qtr	Completed
12	LIPA & PSEG LI	Audit	NorthStar Management Action Plans Audit	1st - 4th Qtrs	Completed
13	LIPA	Audit	Cybersecurity	4th Qtr	Planning
14	LIPA & UDSA	Audit	LIPA & UDSA Internal Control Testing	4th Qtr	Reporting

# STATUS OF THE IMPLEMENTATION OF MANAGEMENT'S ACTION PLANS





# **INTERNAL AUDIT Quality Assurance and Improvement Program**

Finance & Audit Committee

December 18, 2019

# Quality Assurance and Improvement Program



Ongoing Internal Assessments



Periodic Internal Assessments



External Quality Assessments

# External Quality Assessment 2019

## Long Island Power Authority Internal Audit

**It is our overall opinion that Internal Audit generally conforms with the *Standards* and the IIA Code of Ethics.**

**This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing**

Governance	
Standard	Rating
1000	GC
1100	GC
1300	GC
Code of Ethics	GC

Staff	
Standard	Rating
1200	GC

Management	
Standard	Rating
2000	GC
2100	GC
2450	GC
2600	GC

Process	
Standard	Rating
2200	GC
2300	GC
2400	GC
2500	GC



IIA  
Quality  
Services, LLC

Thank you for the opportunity to be of service to Internal Audit. We will be pleased to respond to further questions concerning this report and furnish any desired information.

Basil Woller, CIA, CRMA  
Team Leader  
IIA Quality Services, LLC

Tracy Darakjian, CIA  
Director, Quality  
IIA Quality Services, LLC

Team Member:

Robert Riegel, CIA, CRMA, CISA, CFSA, CFE, CRISC

**FOR CONSIDERATION**

December 18, 2019

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

**FROM:** Thomas Falcone

**REQUEST:** Approval of the 2020 Internal Audit Plan and Resource Requirements

---

**Requested Action**

The Finance and Audit Committee is requested to approve the 2020 Internal Audit Plan (the “Plan”) and resource requirements.

**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 require the Vice President of Audit to establish a risk-based Internal Audit Plan consistent with LIPA’s goals. Additionally, the Vice President of Audit must communicate the Internal Audit Plan and resource requirements, including significant interim changes, to senior management and the Board for review and approval.

**Discussion**

The 2020 LIPA Internal Audit Plan includes audits selected and prioritized based on the results of a risk assessment performed by the LIPA Internal Audit Department, with input from various stakeholders and the PSEG Long Island Internal Audit Department.

The annual goal is to define a Plan that covers LIPA and PSEG Long Island’s business units and risk areas and LIPA’s strategic initiatives and top enterprise risks. The Plan must also address the resources necessary to successfully complete the Plan.

The Plan includes five (5) audits of PSEG Long Island, one (1) audit of National Grid and eight (8) audits and advisory reviews of LIPA and the Utility Debt Securitization Authority, including audits of the completed 2018 Management & Operations Audit Implementation Plans.

**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 2020 INTERNAL AUDIT PLAN AND  
RESOURCE REQUIREMENTS**

**NOW, THEREFORE, BE IT RESOLVED**, that consistent with the attached memorandum, the Finance and Audit Committee of the Board Trustees hereby approves the 2020 Internal Audit Plan and resource requirements.

Dated: December 18, 2019





# **LIPA PROPOSED 2020 INTERNAL AUDIT PLAN & RESOURCE REQUIREMENTS**

Finance & Audit Committee

December 18, 2019

# Institute of Internal Auditors (IIA) International Professional Practices Framework



## Definition

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.



## Code of Ethics

Internal auditors are expected to apply and uphold the following principles:

- Integrity
- Objectivity
- Confidentiality
- Competency



## IIA Standards

*Standards* are principle-focused and provide a framework for performing and promoting internal auditing.

# Internal Audit

## Mission, Purpose, Authority & Responsibility



### Mission

To enhance and protect organizational value by providing risk-based and objective assurance advice and insight.



### Purpose

The purpose of LIPA's internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve LIPA's operations.



### Authority

The internal audit activity is authorized full, free, and unrestricted access to any and all of Authority and PSEG Long Island records, physical properties, and personnel pertinent to carrying out any engagement. The internal audit activity will also have free and unrestricted access to the Finance and Audit Committee.



### Responsibility

Examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.

# PROPOSED 2020 INTERNAL AUDIT PLAN

#	Entity	Business Unit	Activity Type	2020 Audit Plan	Audit Objective	Proposed Timing
1	PSEG LI	Customer Services	Assurance	Customer Protection Programs	Evaluate the adequacy and effectiveness of internal controls to ensure the efficiency and effectiveness of customer protection programs.	3 <sup>rd</sup> Qtr
2	PSEG LI	Customer Services	Assurance	Deferred Payment Agreements	Evaluate the adequacy and effectiveness of internal controls to ensure the efficiency and effectiveness of customer deferred payment agreements.	1 <sup>st</sup> Qtr
3	PSEG LI	T&D	Assurance	Capital Project Performance	Evaluate the adequacy and effectiveness of internal controls to estimate, track and monitor capital project performance.	1st-2 <sup>nd</sup> Qtr
4	PSEG LI	T&D	Assurance	Pole Replacement Program	Evaluate the adequacy and effectiveness of internal controls to ensure effective project management and control for the Pole Replacement Program, including cost estimates, project verification, property records and as-built.	3 <sup>rd</sup> Qtr
5	PSEG LI	Entity-Wide	Assurance	2020 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.	3 <sup>rd</sup> Qtr
6	National Grid	National Grid	Assurance	Power Supply Agreement Generating Unit Net Book Value Calculation	Evaluate the Method and Calculations Used by National Grid to Determine the Net Book Value of Generating Units for the Power Supply Agreement Capacity Ramp Down Payment.	1 <sup>st</sup> Qtr
7	LIPA	LIPA	Advisory	Annual Evaluation of PSEG Long Island Performance Metrics and Incentive Compensation	Evaluate the annual evaluation of PSEG Long Island Performance Metrics and Incentive Compensation.	2 <sup>nd</sup> Qtr
8	LIPA	LIPA	Assurance	Data Protection	Assess the data protection controls for Personally Identifiable Information (PII).	1 <sup>st</sup> Qtr
9	LIPA	LIPA	Assurance	Cybersecurity and Data Back-up and Recovery	Perform an assessment of the operating effectiveness of LIPA's Cybersecurity and Data Back-up and Recovery Policies and Procedures.	4 <sup>th</sup> Qtr
10	LIPA	LIPA	Assurance	Ethics & Compliance Programs	Evaluate the compliance with the Ethics & Compliance Programs.	2 <sup>nd</sup> Qtr
11	LIPA	LIPA	Assurance	LIPA Oversight	Evaluate LIPA's oversight activities of PSEG Long Island.	3 <sup>rd</sup> Qtr
12	LIPA	LIPA	Advisory	Pre-Implementation Review - Enterprise Resource Planning System	Evaluate that system controls are appropriately designed, review of system testing strategies and test results and end users are adequately trained.	1st-4 <sup>th</sup> Qtr
13	LIPA	LIPA	Assurance	NorthStar Management Action Plans Audit	Audit of the completed NorthStar Management Audit Action Plans.	1st-4 <sup>th</sup> Qtr
14	LIPA & UDSA	LIPA & UDSA	Assurance	LIPA & UDSA Internal Control Testing	Evaluate the adequacy and effectiveness of key internal controls for LIPA and UDSA's Business Processes.	4 <sup>th</sup> Qtr

# PROPOSED 2020 INTERNAL AUDIT BUDGET

	2020 Budget	2019 Budget	Explanation
Salaries	\$521,133	\$512,826	Four (4) Full-time Staff
Internal Audit Consulting	675,000	675,000	Co-sourced - Subject-matter expertise support costs
Other	32,700	32,700	Includes 48 Hours professional development per team member
Total	\$1,228,833	\$1,220,526	

# Proposed Internal Audit Resource Allocation



Internal Audit Resource Allocation - 3,200 Hours, including 450 Contingency Hours



Co-sourced Subject-Matter Expertise Resource Allocation – 3,000 Hours



Internal Audit Resource Allocation is appropriate, sufficient, and effectively deployed to achieve the proposed audit plan.

# 2020 Audit Plans Aligned to Combined Enterprise Risk Categories

<h2>Combined Enterprise Risk Categories</h2>	<h2>2020 LIPA and PSEG Long Island Audit Plan Coverage</h2>
<h3>Reputation</h3> <p>Reputation is impacted by a customer/stakeholder's perception of financial and/or operating performance and results in negative media coverage.</p>	<ul style="list-style-type: none"> <li>• Customer Protection Programs (LIPA IA)</li> <li>• Deferred Payment Agreements (LIPA IA)</li> <li>• Credit and Collections (PSEG LI IA)</li> <li>• Energy Efficiency Customer Rebates (PSEG LI IA)</li> <li>• Energy Efficiency Programs (PSEG LI IA)</li> <li>• Customer Service Centers (PSEG LI IA)</li> <li>• Talent Acquisition (PSEG LI IA)</li> <li>• Background Checks (PSEG LI IA)</li> </ul>
<h3>Reliability</h3> <p>Catastrophic event (e.g., major storm) and/or operational issues result in long-duration outages, and negative public perception.</p>	<ul style="list-style-type: none"> <li>• Storm Compliance (PSEG LI IA)</li> <li>• Storm Hardening (PSEG LI IA)</li> <li>• Capital Project Performance (LIPA IA)</li> <li>• A&amp;R OSA Metrics Reporting (LIPA IA)</li> <li>• Metrics and Incentive Compensation (LIPA IA)</li> <li>• Potential 300K PSEG LI Customer Outages (PSEG LI IA)</li> <li>• Contractor Oversight (PSEG LI IA)</li> <li>• Asset Inventory (PSEG LI IA)</li> <li>• Materials Management (PSEG LI IA)</li> <li>• Vendor Contracts (PSEG LI IA)</li> </ul>

# 2020 Audit Plans Aligned to Combined Enterprise Risk Categories(continued)

<b>Combined Enterprise Risk Categories</b>	<b>2020 LIPA and PSEG Long Island Audit Plan Coverage</b>
<p><b>Cyber &amp; Physical Security</b>                      Cyber or physical security breach to a critical operating system results in the inability to operate the system safely and effectively.</p>	<ul style="list-style-type: none"> <li>• LIPA Cybersecurity and Data Back-up and Recovery (LIPA IA)</li> <li>• LIPA Data Protection (LIPA IA)</li> <li>• NIST IT Recommendations (PSEG LI IA)</li> <li>• Mainframe Operating System Security (PSEG LI IA)</li> </ul>
<p><b>Regulatory Risk</b>                      Regulations are modified and result in potential changes to the business model, operational changes, and/or an increased cost of service.</p>	<ul style="list-style-type: none"> <li>• NorthStar Management Action Plan Audit (LIPA IA)</li> <li>• Compliance with LIPA Reform Act (PSEG LI IA)</li> </ul>
<p><b>Rates</b>                      Insufficient rates/untimely rate relief leads to inadequate system investments which compromises LIPA’s ability to achieve strategic priorities.</p>	<ul style="list-style-type: none"> <li>• O&amp;M Budget Planning Process (PSEG LI IA)</li> <li>• Purchase and Storm Cards (PSEG LI IA)</li> <li>• Payroll Robotics Process Automation (PSEG LI IA)</li> <li>• Procurement (PSEG LI IA)</li> <li>• Power Supply Agreement Generating Unit Net Book Value Calculation</li> </ul>





# **PSEG LONG ISLAND 2020 INTERNAL AUDIT PLAN**

Finance & Audit Committee

December 18, 2019

# PSEG LONG ISLAND 2020 INTERNAL AUDIT PLAN

Audit Unit	Preliminary Scope
Utility Review Board (URB)	Evaluate the adequacy of the documentation and effectiveness of the controls within the URB process.
Mainframe Operating System Security	Evaluate the effectiveness of processes and controls established to assure the Mainframe Operating System is properly configured to ensure PSEG LI is able to execute critical business processes and protocols and procedures are in place to ensure security of the mainframe.
Vendor Contracts	Evaluate PSEG LI's contract management process to assure compliance with contract conditions and invoice processing.
Contractor Oversight	Evaluate the management and oversight of PSEG LI contractors, including their approval of time sheets, invoices, and contracts.
Procurement	Evaluate the adequacy and effectiveness of processes and controls pertaining to Minority and Women-Owned Business Enterprises (MWBE) and Service Disabled Veteran-Owned Business (SDVOB), and for compliance with applicable laws and regulations.
Storm Compliance	Evaluate the adequacy of the asset reporting process during storm events.
Credit and Collections	Ensure customer accounts in arrears and bankruptcy are monitored and collection activity is pursued timely, uncollectable accounts are charged-off timely, adequate oversight of collection agencies is maintained, recoveries of previously charged-off amounts are recorded properly, and customers are protected in accordance with the Home Energy Fair Practices Act (HEFPA).

# PSEG LONG ISLAND 2020 INTERNAL AUDIT PLAN

Audit Unit	Preliminary Scope
Accounting Close	Evaluate certain key components within the Accounting Close and Financial Reporting processes for PSEG LI, with primary emphasis on the accrual process, to determine their adequacy and operating effectiveness.
Customer Service Centers	Evaluate the adequacy and operating effectiveness of processes and controls in place at Customer Service Centers.
Storm Hardening (FEMA Compliance)	Review the FEMA grant closeout process and ascertain PSEG LI is in compliance with regulatory requirements.
Energy Efficiency Programs	Evaluate certain key components within the Energy Efficiency Programs and Utility 2.0 to determine their adequacy and operating effectiveness.
Materials Management	Assess the adequacy of controls for the safeguarding and valuation of materials and supplies inventory items.
Background Checks	Ensure background checks are conducted on all new hires and contractors, and that measures are in place for addressing failed background checks and compliance with federal and state laws.
Talent Management*	Review and evaluate the Human Resources practices related to talent management, including those designed to attract, engage, develop, and retain talented employees. Also, review the working relationship with new recruitment partner, Randstad Sourceright.

\*Quick Impact Audit

# PSEG LONG ISLAND 2020 INTERNAL AUDIT PLAN

Reviews	Preliminary Scope
Operating & Maintenance (O&M) Budget Planning Process	Evaluate whether the process to develop the annual operations and maintenance (O&M) budget is adequately controlled.
Asset Inventory	Evaluate whether capital improvements made in 2019 are properly reflected in plant records, maps and asset maintenance databases.
IT Inventory	Conduct an inventory of IT equipment maintained in IT Storage Rooms to ascertain the physical counts agree with management records, and that a process exists for periodically ensuring the accuracy of such items.
National Institute of Standards and Technology (NIST) IT Recommendations	Ascertain management has appropriately addressed each of the recommendations made in the NIST report.
Payroll Robotics Process Automation	Evaluate procedures to develop, implement and monitor robotic process automation within applicable payroll processes, including the new hire master data entry process.

# PSEG LONG ISLAND 2020 INTERNAL AUDIT PLAN

Reviews	Preliminary Scope
Work Breakdown Structure (WBS) Project Creation	Ascertain projects are properly created in the WBS system and in a timely manner.
Energy Efficiency Customer Rebates	Determine whether adequate measures are in place for evaluating the validity of energy efficiency customer rebates and that there are appropriate controls for their approval.
Compliance with LIPA Reform Act	Ascertain PSEG LI is in compliance with the reporting requirements pursuant to the LIPA Reform Act.
Continuous Auditing (CA)	Preliminary Scope
Purchase and Storm Cards	Review to ascertain purchases are in conformance with the Purchase and Storm Cards Program.
Advisory Assurance (AA)	Preliminary Scope
Potential 300K PSEG LI Customer Outages	Assist management with its implementation program to ascertain measures are in place to quickly restore power to PSEG LI customers in the event of a major outage (300K customers).