

## Utility Debt Securitization Authority 2019 Internal Control Assessment

This report summarizes UDSA'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 UDSA followed a process that assessed and documented the adequacy of its internal control structure and policies for the year ending December 31, 2019. To the extent that deficiencies were identified, UDSA has developed corrective action plans to reduce any corresponding risk.

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### **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, UDSA is:**

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

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

The UDSA was organized solely for the purpose of issuing restructuring bonds and to collect from Long Island Power Authority (LIPA) customers amounts sufficient to pay off its debt service. The UDSA through its Administrator and Servicer, the Long Island Power Authority, maintains an Internal Control Manual, available to all LIPA staff, summarizing internal control policies and procedures, including UDSA policy.

The CEO reinforces the importance of the internal control program by sending a written communication to all staff detailing the purpose and importance of the its 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 and to promptly report any such violations to appropriate internal management personnel.

**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, UDSA is:**

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

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

LIPA staff regularly reviews the UDSA internal control system and updates its policies and procedures as needed. UDSA has documented policy and procedure guidelines with clearly identified responsibilities and objectives. Annually UDSA's Servicer's internal audit department includes as part of its LIPA audit plan, compliance testing to determine if controls are adequate and being adhered to on behalf of the UDSA. When exceptions to the system of internal controls are identified, it is provided to the both LIPA's Vice President-Audit and the Internal Control Officer. The Internal Control Officer reviews such exception or deficiency, determine its cause, consider what changes in control systems are necessary for preventing future exceptions (or improving such deficiency), and then documents the analysis in writing, a copy of which is retained by the Internal Control Officer. The Internal Control Officer is required to prepare an annual report to the CEO to report the status of all corrective actions. During 2019, no deficiencies were identified; therefore, no report was necessary.

The UDSA policy documents are on LIPA's online network computer system and through an internally-accessible intranet site to assist in searching relevant sections. The manuals are protected to enable staff to read and print materials as needed, but to prevent inadvertent changes or deletions.

- 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, UDSA is:**

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

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

As previously described, all the UDSA policy and procedure manuals, guides and handbooks are posted on an intranet site available to all staff. Annually, UDSA's Servicer (LIPA) updates its job descriptions and employees receive performance evaluations with clear and concise goals. All employees are required to sign these evaluations to ensure they have read and understood expectations.

- 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, UDSA is:**

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

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

Kenneth Kane, as Chief Financial Officer of UDSA is the acting Internal Control Officer Mr. Kane is a Certified Public Accountant with over 30 years of experience.

**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, UDSA is:**

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

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

LIPA's staff manages all processes of the UDSA as the Administrator and Servicer. LIPA staff are provided the Authority's Internal Control Manual (which includes the State Internal Control Standards as an Appendix), as well as providing 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.

The Authority also provides, annually, the New York State on-line internal control training program (ie.Grovo). Furthermore, the Authority regularly holds educational full staff meeting to educate employees on continuing risks, including those of UDSA.

**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, UDSA is:**

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

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

In September 2014, the LIPA's Board appointed Kathleen Mitterway as Director of Audit. Ms. Mitterway was promoted to Vice President-Audit in June 2018 and reports directly to the LIPA Finance and Audit Committee of the Board for audit activities; however, she reports to the CEO for administrative matters.

As UDSA's Servicer, LIPA's internal audit department includes in its annual internal controls testing the control objectives of the UDSA.