



MANAGEMENT AUDIT ANNUAL REPORT

September 23, 2020

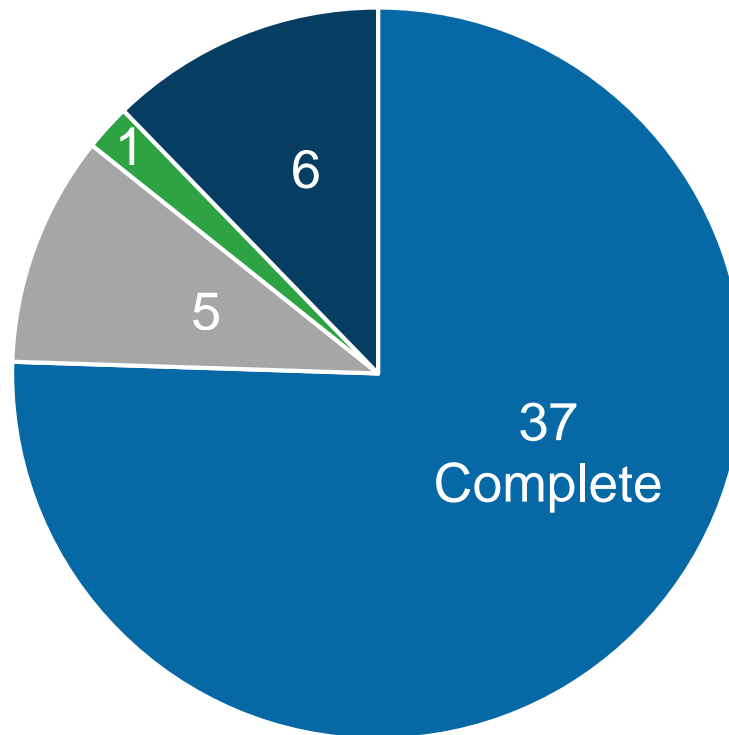
OVERVIEW

- The Department of Public Service (DPS) performs an independent audit of Long Island utility operations every five years
- The 2018 audit produced a total of 49 recommendations in 14 areas of management and operations
- All recommendations adopted by the Board and ordered implemented
- LIPA's audit oversight includes:
 - Public progress reports to Board of Trustees and DPS placed on LIPA's website
 - Annual internal audits of implementation and reporting to the Board of Trustees

IMPLEMENTATION PROGRESS SINCE OCTOBER 24, 2018

- To date, almost all the implementation plans are complete
- Nearly two-thirds tested by Internal Audit with the remainder to be audited by end of 2022
- Collaboration with DPS:
 - ✓ Tri-annual progress reports filed each February, June, and October
 - ✓ Information Request responses submitted via dedicated electronic platform
 - ✓ Review comments/recommendations from DPS staff on completed items

ALMOST ALL IMPLEMENTATION PLANS ARE COMPLETE



■ Completed ■ In Progress ■ Revised ■ Recurring Reports

SCOPE OF AUDIT TESTING

Status	# Recommendations by Status	Tested by Internal Audit
Completed	37	27
In Progress	5	N/A
Revised	1	N/A
Recurring Reports	6	6
Total	49	33

NEXT STEPS

- Next DPS progress report due on October 24, 2020
- DPS comments and revisions incorporated as necessary
- LIPA and PSEG Long Island continuously evaluate efficacy of completed implementation plans. Modify and report as necessary
- Remaining recommendations still in progress appear on track to be fully implemented before commencement of the next audit

The image shows a vast expanse of blue ocean under a clear blue sky. In the foreground on the left, a large offshore wind turbine stands on a yellow lattice structure. Several other smaller wind turbines and support vessels are visible in the distance. The overall scene is serene and represents renewable energy.

Questions?

FOR CONSIDERATION

September 23, 2020

TO: Oversight and Clean Energy Committee

FROM: Kathleen H. Mitterway, Vice President - Audit

SUBJECT: Status of the Implementation Plan and Results of the Annual Audit -
2018 NorthStar Management Audit – Recommendation #3

On June 29, 2018, NorthStar’s Final Management Audit Report was released with 49 recommendations. Recommendation #3 was that “LIPA Internal Audit should perform a comprehensive audit of the implementation status of all audit recommendations annually until the next DPS audit is performed.”

The LIPA Board of Trustee's Policy on Audit Relationships establishes the Board’s expectations for Internal Audit’s review. Each annual review includes: a summary of the activities completed to date and any revisions to completion targets; and a review of the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the implementation plan for that recommendation. This report is Internal Audit’s second annual review of the implementation of the management audit.

Summary Observations as of September 23, 2020

Internal Audit completed the review of 27 of the 37 completed and 6 of the 6 recurring NorthStar Management Audit recommendations. Our testing identified one recommendation where an enhancement to the PSEG Long Island Utility Review Board approval process was required, one recommendation where enhancements were needed in the communication of work order information between operating groups and the asset recording groups, and three recommendations where additional supporting documentation was required, which was subsequently remediated. The review of an additional 16 recommendations is expected to be completed in 2021 and 2022.

One of the implementation plan due dates have been revised due to delays in upgrading LIPA’s financial system. The recommendation is expected to be completed by December 31, 2020.

Internal Audit is collaborating and incorporating comments by the Department of Public Service (DPS) into our review of the effectiveness of the implementation plans in addressing the NorthStar Management Audit recommendations.

Where required, Internal Audit will revisit the completed recommendations to ensure the management action plans are operating and functioning as intended.

The status of the 49 NorthStar Management Audit recommendations are summarized in the table below. The status terms used below are defined as follows:

Completed: the audit recommendation has been implemented in full and no further action is required.

In-Progress: the implementation plan continues to be executed and is expected to be completed on time notwithstanding possible revisions to due dates of interim steps.

Revised: the anticipated completion date of an audit recommendation has been revised for reasons set forth in the commentary section of that implementation plan.

Recurring: the audit recommendation has been implemented subject only to periodic or recurring activity, reporting or filing requirements set forth in the recommendation.

Recommendation Status	# Recommendations by Status	Tested by Internal Audit
Completed	37	27
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Summary of Annual Audit Results as of September 23, 2020

Recommendation #2

LIPA and PSEG LI should develop an implementation plan for all audit recommendations (new recommendations and outstanding recommendations that LIPA, PSEG Long Island and DPS determine remain relevant) within 90 days of the Final Audit Report acceptance and submit the implementation plan to the LIPA Board of Trustees and the DPS. The Report could take the form required of the investor-owned utilities.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- LIPA filed an implementation plan with the LIPA Board of Trustees and DPS on October 24, 2018.
- LIPA submitted an Implementation Plan Progress Report to the LIPA Board of Trustees, posted on the LIPA website, and filed with DPS on September 25, 2019.

No exceptions noted.

Recommendation #3

LIPA Internal Audit should perform a comprehensive audit of the implementation status of all audit recommendations annually until the next DPS audit is performed. The results of LIPA's audit should be submitted to LIPA executive management, the LIPA Board of Trustees, PSEG Long Island, and the DPS. Within each LIPA audit:

- An evaluation of progress performance should be included.

- A progress tracking document should show activities completed to date and those in process.
- Any revisions to completion targets should be highlighted for management review.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

The submission of the first annual report to the Oversight Committee of the Board, the DPS, and PSEG Long Island of the status of the implementation plan and the results of the initial annual audit on September 25, 2019. No exceptions noted.

Recommendation #4

LIPA Financial Oversight should formally document the results of its PSEG Long Island oversight activities and assessment process annually with submission to LIPA/PSEG Long Island executive management as well as DPS.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

The 2019 Oversight Activity Report was provided to DPS, LIPA and PSEG Long Island management teams. No exceptions noted.

Recommendation #5

LIPA should formally request appointments or confirm extensions to Board member term periods at least six months prior to term expirations.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

The schedule prepared of trustee term expiration dates, calendar notification reminders of expirations and letters sent to the appropriate approving authorities at least six months prior to term expirations. No exceptions noted.

Recommendation #13

Develop evaluative criteria or other measures to assess the effectiveness of the planning process. Effectiveness should be measured based on specifics, for example:

- Number and timeliness of system studies
- Timeliness of development of Project Justification Documents (PJDs)
- Quality of PJDs (e.g., do they contain all requisite information?)
- Relative accuracy of conceptual level estimates

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- Feedback was obtained from internal and external stakeholders, including LIPA and the DPS.
- Proposed criteria and measures have been developed and approved.
- Meetings were held to review the proposal with internal and external stakeholders, including LIPA and the DPS.
- The criteria and measures have been implemented.

Reviewed how management confirmed the effectiveness of the criteria and measures, including supporting evidence of management's evaluation.

Observations noted and remediated.

Recommendation #20

Perform all policies, procedures and control functions that are currently and formally required.

- PSEG Long Island should conduct all audits as required in the A&R OSA.
- Adhere to formal document control policies and procedures.
- PSEG Long Island should follow the Project Management Playbook (PMP) and its procedures.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- Existing procedures were reviewed, revised, and implemented, including documentation of major components that were missing.
- Projects & Construction personnel and other key stakeholders were trained.

PSEG Long Island Internal Audit conducted testing to determine the business' adherence to documented control policies and procedures as part of its testing of internal controls evaluation for 2019 and 2020.

- Completeness and accuracy of capital asset records, included in PowerPlan, SAP Asset Registry (for maintainable assets), and Geographic Information System (GIS).
- Applicable key internal controls are properly designed.

Observations noted and remediation in progress.

Recommendation #21

The URB management processes and controls should be audited annually until the next DPS audit to confirm adherence to its charter and control policies and procedures.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

An audit of the URB process was performed and an audit report was issued on August 17, 2020. Observation noted and remediation in progress.

Recommendation #29

Develop overtime targets for PSEG Long Island operations and maintenance organizations based on economic analyses and verified industry norms.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain that:

- A team was formally established to review PSEG Long Island overtime rates and perform market research.
- Research was performed on industry peers to identify normal overtime rates.
- A cost/benefit analysis was performed to assess adjusting the workforce to adjust overtime rates.
- Appropriate overtime targets were identified and developed for PSEG Long Island operations and maintenance groups based on economic analyses and verified industry norms.
- Appropriate overtime targets were established for the six primary crafts within Electric Operations and that an implementation schedule was created.
- That the schedule for overtime targets was formally implemented.

No exceptions noted.

Recommendation #30

Add Key Performance Indicators (KPIs) for management positions. Review the design of monitoring and controlling reports to improve their usefulness.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- Existing reporting capabilities were reviewed and additional reporting that can support KPI reporting at manager and supervisor levels was identified.
- All management positions have been identified and listed, including applicable KPIs.
- An analysis of all T&D positions was performed in order to identify jobs that would receive KPIs. Confirm that specific KPIs have been established for all qualified positions.
- Reasonable explanations were provided for T&D management positions that did not receive KPIs.
- KPIs were added to job descriptions and were effectively communicated to commence KPI level reporting.

No exceptions noted

Recommendation #36

Measure the effectiveness of capital-project outreach, media relations and external affairs programs, to determine whether outreach efforts are cost-efficient, on target, and achieving results. Potential measurement options include surveys, focus groups, a media clip index, or attendance at public meetings.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain that:

- A meeting of stakeholders occurred to gather input into outreach goals and potential measures of outreach effectiveness.
- A template scorecard was developed that contains metrics on outreach effectiveness, cost-efficiency, and appropriateness of outreach targeting.

- A six-month pilot of outreach scorecard was completed.
- A finalized public outreach scorecard was developed.
- Pilot findings were summarized.

No exceptions noted.

Recommendation #37

On a pilot basis, evaluate the potential use and effectiveness of text messages and phone calls to customers on scheduled tree trim routes.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain that Vegetation Management:

- Has established a process for using text and phone call notifications for customers on scheduled tree trim routes.
- Has managed the process for a period of time and has evaluated the pros and cons of using text and phone call notifications for customers on scheduled tree trim routes.
- Has made the decision to continue to utilize text messaging and robo-phone calls when notifying customers of future tree trimming projects in their neighborhoods.

No exceptions noted.

Recommendation #38

Measure the effectiveness of energy efficiency and low-income program outreach and marketing efforts.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- That a project team was established and a kick-off meeting was held.
- Program-eligible customer prospect profiles have been developed.
- The customer profiles identified in Step 2 were used to identify potential low-income prospects in the company's general customer database.
- The best low-income communication channels have been identified.
- A baseline awareness study regarding low-income programs was conducted and the findings reported.
- A communications plan was established based on customer survey feedback, channel selection and target populations.
- Communications collateral and materials have been developed to inform low-income customers of available assistance programs.
- The Low Income Marketing Communication Plan had commenced in accordance with the established schedule.
- Mid-year and Year-end evaluation surveys were performed and the findings reported.

- The annual communication plan was effectively modified as necessary to achieve desired improvements in awareness results.

No exceptions noted.

Recommendation #39

Develop a more formalized process for determining the outreach budgets for capital projects, particularly Tier 3 and high scoring Tier 2 projects.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- Estimate levels for project for establishing and refining anticipated costs for outreach activities have been identified.
- A project team was established.
- A draft Outreach Cost Matrix for estimating labor and non-labor outreach costs was developed.
- A three-month pilot of the draft Outreach Cost Matrix was conducted commencing October 2018.
- The pilot findings were summarized.
- The Outreach Cost Matrix was refined based on pilot findings and was moved into production.

No exceptions noted.

Recommendation #40

Update the External Affairs Handbook to reflect recent lessons learned, the findings in NorthStar's report, the items cited below, and the other recommendation cited in this chapter.

- Expand the discussion of project scoring.
- For all Tier 3 projects, update constituents as the project approaches its start date, or if there are significant project changes (e.g., scope, schedule, location/route, duration, or other item likely to impact the community such as overhead versus underground, pole heights, additional poles, traffic, outages). This is in addition to the annual update on the 5-year capital plan.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- A kickoff and review session was held on existing and recommended policies for the Outreach Handbook.
- A draft of updates to the Outreach Handbook was prepared and provided to External Affairs.
- A review of the first draft was held with internal stakeholders.
- The vendor provided a second draft of the Outreach Handbook.
- A review of the second draft of the Outreach Handout was performed by External Affairs.

- A final draft of the Outreach Handbook was provided by the vendor.
- The External Affairs team reviewed and implemented the revised Outreach Handbook to address the items in the recommendation.

No exceptions noted.

Recommendation #41

Formalize the External Affairs training and enhance it to include the following:

- Outreach expectations and requirements (e.g., frequency and information to be communicated)
- Scoring methodology and application of the scoring rubric in a consistent, objective manner
- Documentation requirements
- The External Affairs Handbook and other policies and procedures
- Communication with the DPS
- When various outreach activities/communications methods are required or should be employed
- Developing budgets for capital project outreach.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- A project team was established and training was assigned.
- Module 1- Outreach Expectations and Requirements
 - A draft training document was developed, reviewed by internal stakeholders and finalized. Training was conducted on Module 1.
- Module 2 - Scoring Methodology and Application of the Scoring Rubric in a Consistent, Objective Manner
 - A draft training document was developed, reviewed by internal stakeholders and finalized. Training was conducted on Module 2.
- Module 3 - Documentation Requirements:
 - A draft training document was developed, reviewed by internal stakeholders and finalized. Training was conducted on Module 3.
- Module 4 - Communication with the DPS
 - A draft training document was developed, reviewed by internal stakeholders and finalized. Training was conducted on Module 4.
- Module 5 – Developing Outreach Budgets for Capital Projects
 - A draft training document was developed, reviewed by internal stakeholders and finalized. Training was conducted on Module 5.
- Module 6 - External Affairs Handbook and Other Policies and Procedures
 - A draft training document was developed, reviewed by internal stakeholders and finalized. Training was conducted on Module 6.

No exceptions noted.

Recommendation #42

Develop formal public outreach plans for each Tier 3 project (i.e., not a spreadsheet). At a minimum the plans should include the following, and should be updated as the project or anticipated outreach requirements change:

- Description of the project, including timeline and key milestones
- Checkpoints to identify any significant changes in project scope or timing
- Scoring sheets and a discussion of key concerns and how to mitigate them
- Discussion of alternatives considered
- Project budget and detailed outreach budgets
- Anticipated frequency of communications/timeline, planned outreach activities and materials.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- A project team was established and a kick off meeting held to discuss the recommendation.
- A draft outreach planning template was developed that included description of project, including key milestones; checkpoints; scoring sheets; discussion of alternatives considered; anticipated frequency of communications.
- External Affairs piloted the draft Outreach Planning Template.
- A review session was held to obtain feedback on the draft Outreach Planning Template.
- A final Outreach Planning Template and an attached Outreach Cost Matrix Template was in place.
- Training occurred with the External Affairs team on the final Outreach Planning Template.

No exceptions noted.

Recommendation #43

Document meetings (date, attendees, topics discussed, takeaways) with impacted officials as required by the External Affairs Handbook.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- A log was created that captures meeting date, attendees, topics discussed and takeaways.
- Training occurred for the External Affairs team on use of the documentation log.
- Weekly communication tracking was implemented.

No exceptions noted.

Recommendation # 44

Increase the specificity of capital project-related outreach:

- Include more specific, detailed project information on public information meeting letters and notices.
- All outreach materials (i.e., fact sheets and customer letters) resulting in additional poles, pole changes, a shift from underground to overhead cables should indicate such and provided detailed description.
- Consider increased use of pictures and renderings in outreach materials, particularly the reliability web pages.
- Add a link to PSEG Long Island’s reliability web page on all outreach materials, particularly customer letters. Include dates materials were added to the reliability project pages of PSEG Long Island’s website.
- Consider an icon for “Upcoming projects in your neighborhood” or the equivalent to the www.psegliny.com landing page.
- Include community/public meeting presentations on the reliability pages of PSEG Long Island’s website.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

- Community/public meeting presentations are included on the reliability pages of the PSEG Long Island's websites.
- There is increase use of pictures and renderings on reliability web pages.
- More specific, detailed project information were included on public information meeting letters and notices.
- A “Current Projects” promotional section and accompanying link to www.psegliny.com homepage was added.
- Revisions were made to the letter and fact sheet templates for outreach materials resulting in additional poles, pole changes, a shift from underground to overhead cables to indicate such and provided detailed description.
- Training on the maintenance of the reliability web pages occurred.
- Revised letter and fact sheet templates were implemented.
- "Date posted" has been added to the reliability project pages of PSEG Long Island web site.

Observations noted and remediated.

Recommendation # 45:

Develop and adhere to a schedule for completion of the annual metric identification and target setting process that provides for a final list of approved metrics at the beginning of the measurement year. Tier 1 Metrics, definitions, weightings and targets should be set no later than February 28. There should be a final sign-off on all of the aforementioned elements. Note: This is not intended to imply that the metric book must be completed by February 28; however, it should be done in an expeditious manner.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

Completion of the annual metric identification and target setting process that provided a final list of approved metrics for 2020. No exceptions noted.

Recommendation # 46:

PSEG Long Island and LIPA should streamline its process to facilitate the establishment and measurement of meaningful operational metrics to monitor performance, incorporating DPS staff input, and potentially bifurcating the Tier 2 metrics. This might expedite the finalization of the Tier 1 metric.

Examples include:

- Establish a smaller group of Tier 2 metrics used to test metrics for possible inclusion as a Tier 1 metric or to continue to monitor performance when a Tier 1 metric has been moved to a Tier 2 metric.
- Establish a separate classification of metrics to be used to monitor performance in specific areas or for operational reporting. These metrics would not be tied to compensation and could then be used to address such items as the following:
 - Changes in regulatory requirements or NYS initiatives (e.g., Reforming the Energy Vision, Clean Energy)
 - Elements of LIPA's Strategic Plan, Utility 2.0 or the IRP.
 - AMI implementation status
 - Issues identified by internal or external audits, including performance deficiencies identified by NorthStar's audit.
 - Operational changes or revised priorities.
 - Tracking new initiatives or sub-elements of existing initiatives.
 - Metrics intended to address efficiency and effectiveness.
 - As examples, a number of the Tier 2 metrics used over time would more appropriately have been part of this category: social media followers, staffing levels permanent, percent of financial management reports delivered to LIPA.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

LIPA and PSEG Long Island formed a working group and provided documentation supporting the completion and sign-off of the Updated CAM-BPE-F1 Performance Metric Definition and Adjustment Process. No exceptions noted.

Recommendation # 47:

LIPA and PSEG Long Island should continue to evaluate how best to incentivize service provider performance, drive continuous improvements, and align metrics with long-term strategy, operational needs and industry best practices.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

The competition of the 2020 Performance Metric Alignment with Long-Term Strategy/Operational Needs and Industry Best Standards. No exceptions noted.

Recommendation #48

Define the metric calculation methodology to specify whether service restorations completed in exactly two hours should be included in the ETR Accuracy performance metric. NorthStar found the specified calculation methodology open to some interpretation. Currently, PSEG Long Island does not include restoration times of exactly two hours. This should be reconciled between PSEG Long Island and LIPA.

Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

Management clarified the ETR Accuracy performance metric to include restoration in exactly two hours as an achievement, in collaboration with LIPA. Observations noted and remediated.