



INTERNAL AUDIT UPDATE

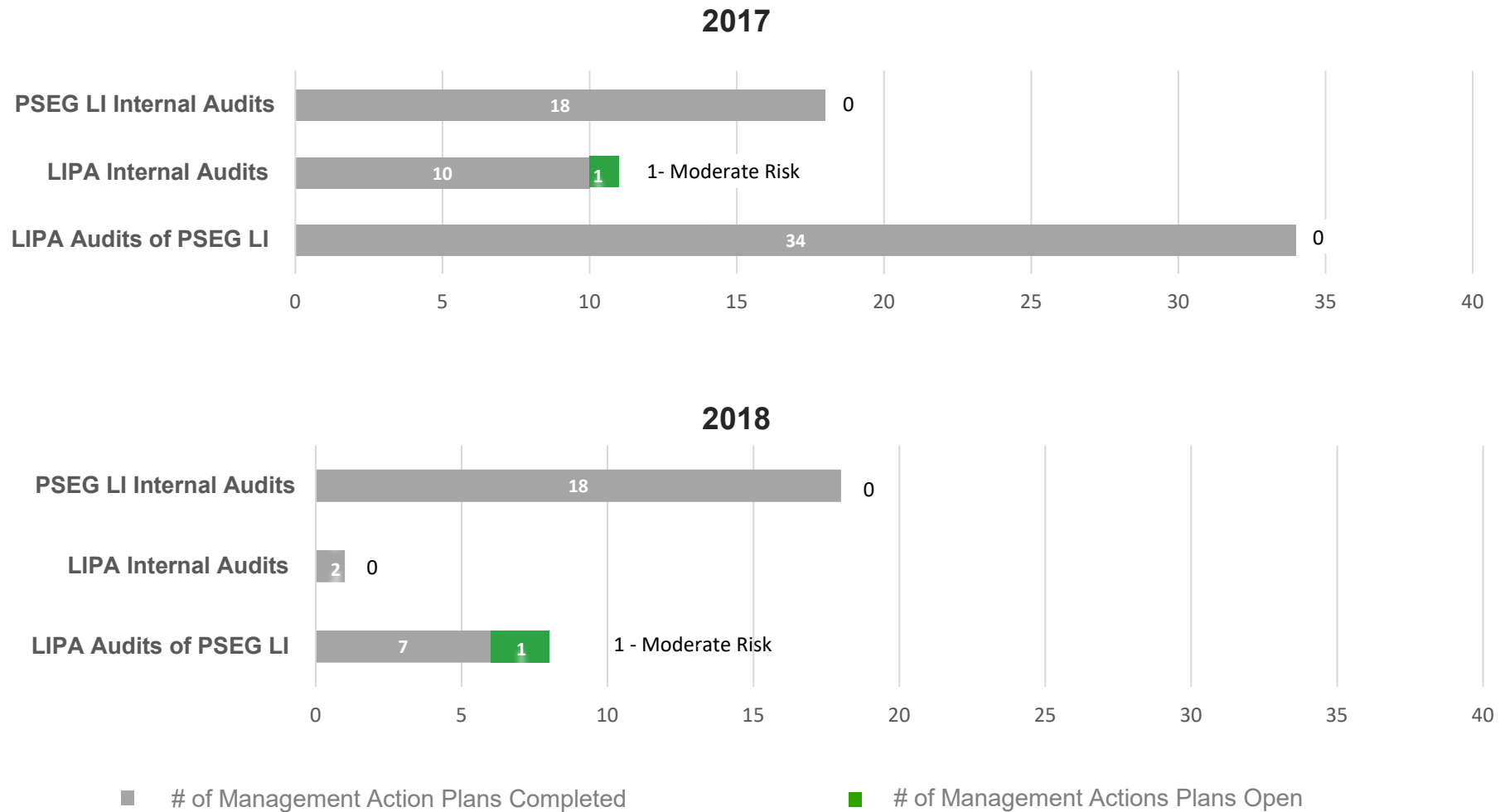
Finance & Audit Committee

December 16, 2020

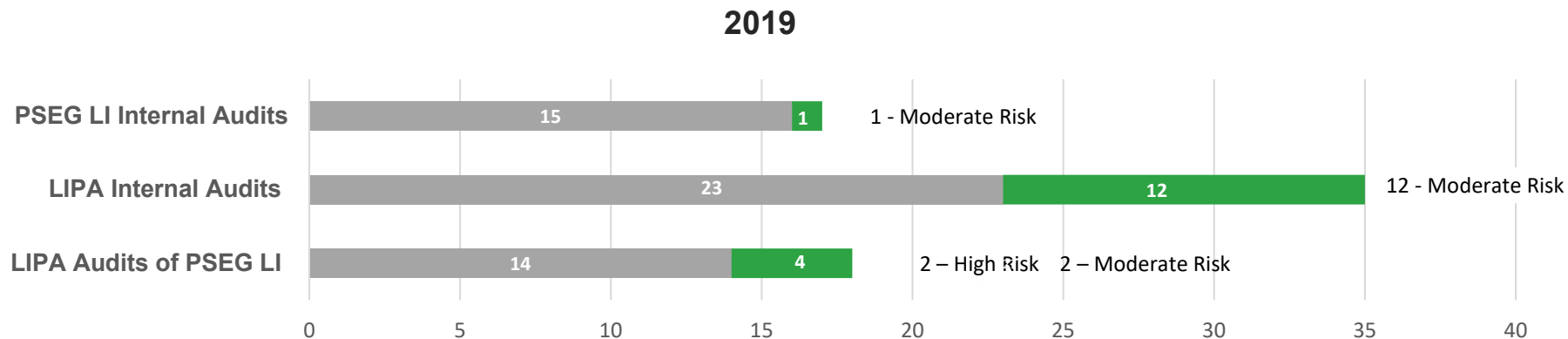
2020 AUDIT PLAN STATUS

| # | Entity | Audit/Review | 2020 Audit Plan | Proposed Timing | Status |
|----|-------------------------|--------------|--|-----------------|-------------|
| 1 | PSEG Long Island | Audit | Customer Protection Programs | 4th Qtr | Reporting |
| 2 | PSEG Long Island | Audit | Deferred Payment Agreements | 1st Qtr | Completed |
| 3 | PSEG Long Island | Audit | Capital Project Performance | 1st - 2nd Qtrs | Completed |
| 4 | PSEG Long Island | Audit | Pole Replacement Program | 3rd Qtr | Reporting |
| 5 | PSEG Long Island | Audit | 2020 A&R Operations Services Agreement (OSA) Metrics | 3rd Qtr | Planning |
| 6 | PSEG Long Island | Audit | Power Supply Agreement Generating Unit Net Book Value Calculation | 1st Qtr | Completed |
| 7 | PSEG Long Island | Advisory | Annual Evaluation of PSEG Long Island Performance Metrics and Incentive Compensation | 2nd Qtr | Completed |
| 8 | LIPA | Audit | Data Protection | 1st Qtr | Completed |
| 9 | LIPA | Audit | Ethics & Compliance Programs | 2nd Qtr | Completed |
| 10 | LIPA | Advisory | Pre-Implementation Review - Enterprise Resource Planning System | 1st - 4th Qtrs | In-Progress |
| 11 | LIPA | Advisory | LIPA Oversight | 3rd Qtr | Deferred |
| 12 | LIPA & PSEG Long Island | Audit | NorthStar Management Action Plans Audit | 1st - 4th Qtrs | Completed |
| 13 | LIPA | Audit | Cybersecurity and Data Back-up and Recovery | 4th Qtr | In Progress |
| 14 | LIPA & UDSA | Audit | LIPA & UDSA Internal Control Testing | 4th Qtr | Completed |
| 15 | PSEG Long Island | Audit | Post Debt Issuance SAP Record Retention | 3rd Qtr | In Progress |
| 16 | PSEG Long Island | Audit | Advanced Consumption | 4th Qtr | In Progress |

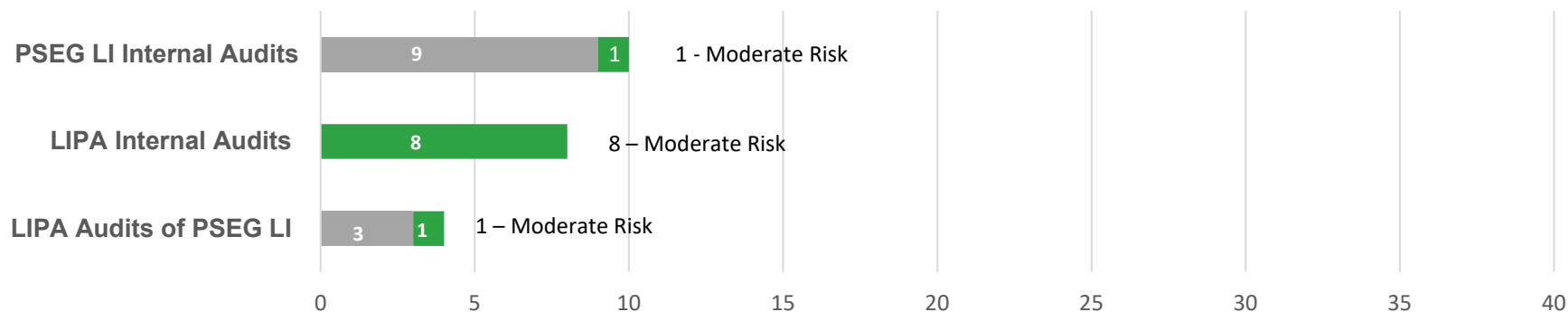
STATUS OF THE IMPLEMENTATION OF MANAGEMENT'S ACTION PLANS



STATUS OF THE IMPLEMENTATION OF MANAGEMENT'S ACTION PLANS




2020



■ # of Management Action Plans Completed

■ # of Management Actions Plans Open



LIPA Proposed 2021 Internal Audit Plan, Budget & Resource Requirements

Finance & Audit Committee

December 16, 2020

AGENDA



Institute of Internal Auditors (IIA)
International Professional Practices Framework



Mission, Purpose, Authority & Responsibility



Internal Audit - Risk Based Planning Process



Proposed 2021 Internal Audit Plan



Proposed 2021 Internal Audit Budget



Proposed Internal Audit Resource Allocation

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 and PSEG Long Island's operations.



Authority

The internal audit activity is authorized full, free, and unrestricted access to any and all of LIPA 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.

Internal Audit Risk Based Planning Process



Internal Inputs – Prior Audits, Resource Availability



Enterprise Risk Management & Key Stakeholders



External Inputs - Institute of Internal Auditors, Gartner



2021 Audit Plan

PROPOSED 2021 INTERNAL AUDIT PLAN

| # | Entity | 2021 Audit Plan | Audit Objective | Inclusion Reason | ERM Risk | Proposed Timing |
|----|------------------|---|--|--------------------|--------------------------------|-----------------|
| 1 | PSEG Long Island | Electric Expansion Projects - Capital Project Performance | Evaluate the adequacy and effectiveness of internal controls to track and monitor capital project performance. | Risk Area | Reliability | 3rd Qtr |
| 2 | PSEG Long Island | Electric Expansion Projects - Capital Project Estimating | Evaluate the adequacy and effectiveness of internal controls for capital project cost estimating through various stages of the project lifecycle from the beginning through project close-out. | Risk Area | Reliability | 2nd Qtr |
| 3 | PSEG Long Island | SEQRA Compliance | Evaluate whether the capital project SEQRA Type II documents (e.g., photo simulations) are aligned with the project scope and final project construction completion documents. | Risk Area | Reputation | 1st Qtr |
| 4 | PSEG Long Island | Storm Compliance - Outage Management System (OMS) Business Continuity (Manual Work Arounds) | Evaluate the adequacy and effectiveness of the manual work around processes in the event of an OMS outage. | Risk Area | Major Storm | 3rd Qtr |
| 5 | PSEG Long Island | Storm Compliance - Crew Guides | Evaluate the adequacy and effectiveness of the preparedness, training, and response plans for Crew Guides during a storm event. | Risk Area | Major Storm | 2nd Qtr |
| 6 | PSEG Long Island | Workforce Management Productivity | Evaluate the adequacy and effectiveness of Workforce Management Productivity. | Risk Area | Reliability | 3rd Qtr |
| 7 | PSEG Long Island | Automated Meter Infrastructure (AMI) - Remote Connects and Disconnects | Evaluate the adequacy and effectiveness of internal controls for AMI remote turn on and turn offs. | Management Request | Reputation | 1st Qtr |
| 8 | PSEG Long Island | Information Technology (IT) Governance | Evaluate whether IT strategies are aligned with organizational objectives, risks are identified and managed properly, IT investments are optimized to deliver value, IT performance is defined, measured, and reported using meaningful metrics, and IT resources are managed effectively. | Risk Area | Cyber Security/ Major Storm | 2nd Qtr |
| 9 | PSEG ER&T | 2021 Energy Resources & Trade (ER&T) Metrics | Evaluate the completeness and accuracy of the calculation of selected PSEG Energy Resources & Trade (ER&T) Power Supply Management and Fuel Management Metrics for compliance with the Fuel Management Agreement. | Management Request | N/A | 3rd Qtr |
| 10 | LIPA & UDSA | LIPA & UDSA Internal Control Testing | Evaluate the adequacy and effectiveness of key internal controls for LIPA and UDSA's Business Processes. | Management Request | Material Misstatement | 4th Qtr |

PROPOSED 2021 INTERNAL AUDIT BUDGET

| | 2021 Budget | 2020 Budget | Explanation |
|---------------------------|-------------|-------------|---|
| Salaries | \$693,500 | \$521,133 | 2021 - Five (5) Full-time staff; Increase of one (1) Full-time staff |
| Internal Audit Consulting | 675,000 | 675,000 | Co-sourced - Subject-matter expertise support costs |
| Training & Other Costs | 32,700 | 32,700 | Includes 48 hours professional development per team member |
| Total | \$1,401,200 | \$1,228,833 | |

Proposed Internal Audit Resource Allocation



Internal Audit Resource Allocation - 4,825 Hours, including 1,000 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.

BOARD AGENDA SUMMARY SHEET

| | | |
|---|-----------------------------------|---|
| Committee or Board: Finance and Audit | Date: December 11, 2020 | Board Meeting Date: December 16, 2020 |
|---|-----------------------------------|---|

For All Board Voting Items:

Title of Agenda Item: Approval of the 2021 Internal Audit Plan, 2021 Internal Audit Budget, and Resource Requirements

Consent Agenda: ☐ Yes ☒ No

Accompanying Presentation: ☒ Yes ☐ No

LIPA Presenter: Kathleen Mitterway

PSEG Long Island Presenter: N/A

| | |
|--|--|
| Requested Action: | The Finance and Audit Committee is requested to approve the 2021 Internal Audit Plan (the “Plan”), 2021 Internal Audit Budget, and Resource Requirements. |
| Summary: (include proposed amendments to Board Policies, if applicable) | 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. |

FOR CONSIDERATION

December 16, 2020

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

FROM: Thomas Falcone

REQUEST: Approval of the 2021 Internal Audit Plan, 2021 Internal Audit Budget, and Resource Requirements

Requested Action

The Finance and Audit Committee is requested to approve the 2021 Internal Audit Plan (the “Plan”), 2021 Internal Audit Budget, 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 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 2021 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, with input from Enterprise Risk Management, and various stakeholders.

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 eight (8) audits and advisory reviews of PSEG Long Island, one (1) audit of PSEG Energy Resources & Trade (ER&T) and one (1) audit of LIPA and the Utility Debt Securitization Authority.

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 2021 INTERNAL AUDIT PLAN, INTERNAL
AUDIT BUDGET, AND RESOURCE REQUIREMENTS**

RESOLVED, that consistent with the attached memorandum, the Finance and Audit Committee of the Board Trustees hereby approves the 2021 Internal Audit Plan, 2021 Internal Audit Budget, and Resource Requirements.



PSEG LONG ISLAND 2021 INTERNAL AUDIT PLAN

Finance & Audit Committee

December 16, 2020

2021 Proposed Audit Plan – PSEG Long Island

| Audit Unit | Preliminary Scope Information | ERM Risk | Last Audit |
|--|---|------------------------|------------|
| Project Planning and Management | Review process for capital project creation, project management, scheduling, estimating, and compliance with applicable regulations. | Reliability | 2019 |
| Advanced Metering Infrastructure (AMI) | Evaluate the effectiveness of controls over AMI meter deployment, customer communication, data transmission and security, user access and vendor management. | Reliability | 2019 |
| Storm Compliance - Storm Isaias | Evaluate the actions taken as a result of Tropical Storm Isaias to reduce the impact during future storm events. | Reliability | 2020 |
| Asset Management | Ascertain recommendations made in the Woodhouse Report were properly addressed and controls over asset management data and reporting are complete and accurate. | Reliability | New 2021 |
| Customer Payment Processing | Evaluate the effectiveness of processes and controls to ensure that customer payments are processed completely, accurately and timely. | Reputation | 2018 |
| Storm Hardening (FEMA Compliance) | Review the FEMA grant closeout process and ascertain PSEG LI is in compliance with regulatory requirements. | Regulatory Environment | 2020 |

2021 Proposed Audit Plan – PSEG Long Island

| Audit Unit | Preliminary Scope Information | ERM Risk | Last Audit |
|---|--|-----------------------------|------------|
| Electric Expansion Projects – Western Nassau Transmission Project | Evaluate the adequacy and effectiveness of processes and controls within the Western Nassau Transmission Project. | Reliability | 2018 |
| Electric Expansion Projects – Power On | Evaluate the adequacy and effectiveness of processes and controls within the Power On Project. | Reliability | 2018 |
| Customer Operations - Complaints | Evaluate the process and system for handling customer complaints and ascertain they are addressed adequately and timely. | Reputation | 2019 |
| Outsourced Data Centers | Review and evaluate backup and recovery, physical security, job scheduling, environmental controls, and performance management. | Cyber and Physical Security | New 2021 |
| Vendor Data Management | Evaluate the effectiveness of controls established to ensure proper restriction of access, segregation of duties and audit trail around the Vendor Master Data, proper vendor qualification screening, monitoring vendor performance, and blocking inactive vendors. | Cyber and Physical Security | 2016 |

2021 Proposed Audit Plan – PSEG Long Island

| Audit Unit | Preliminary Scope Information | ERM Risk | Last Audit |
|--|--|------------------------|-------------|
| Records Retention Management | Review the Records Management Program to ensure the adequacy of governance over the Program as well as Program compliance. | Regulatory Environment | New 2021 |
| Customer Contact* | Review processes and procedures for Customer Contact responsibilities, including Call Centers' handling of customer billing questions and complaints, metering, outages, and general inquiries. | Reputation | New 2020 |
| Reviews | Preliminary Scope Information | ERM Risk | Last Review |
| Mapping Process | Evaluate the adequacy of processes and controls within transmission & distribution system mapping, including processes to ensure completeness and accuracy of data in the Geographic Information System. | Reliability | New 2021 |
| Low to Moderate Income Program Participation | Ascertain the data reported on the Operating Services Agreement scorecard metric is accurate and that PSEG LI is in compliance with the program. | Reputation | New 2021 |
| Meter Multiplier - Commercial Meters | Evaluate the meter multiplier process for commercial meters to ascertain they are set up properly and are registering correct customer consumption. | Reputation | New 2021 |

* Quick Impact Audit

2021 Proposed Audit Plan – PSEG Long Island

| Reviews | Preliminary Scope Information | ERM Risk | Last Review |
|---|---|-----------------------------|-------------|
| Community Partnership Program Vendor Vetting | Evaluate the vetting process for vendors selected as part of PSEG LI Community Partnership Program. | Reputation | New 2021 |
| Robotic Process Automation - Billing Transactions | Evaluate procedures to develop, implement and monitor the billing transactions robotic process. | N/A | New 2021 |
| New Business Back End Process | Evaluate the process as to how custom quotes are managed when the job is complete and how payments are collected and processed. | Reputation | New 2021 |
| Interconnection Portal | Review to ascertain user acceptance testing was performed of this automated process, which is intended to reduce redundant efforts with emails, and that customer PII data is not maintained in the Portal. | Cyber and Physical Security | New 2021 |
| Salesforce Implementation | Evaluate the Salesforce implementation process and ascertain user acceptance testing was performed, where applicable, access controls are in place, exception reports are analyzed, etc. | Cyber and Physical Security | New 2021 |

2021 Proposed Audit Plan – PSEG Long Island

| Continuous Auditing (CA) | Preliminary Scope Information | ERM Risk | Last CA |
|---|--|-------------|----------|
| Purchase and Storm Cards | Select a sample of transactions and test for appropriateness and compliance with the Purchase and Storm Card Program. | Reputation | 2020 |
| Asset Inventory | Evaluate management's process for ensuring capital improvements made in 2020 are properly reflected in plant records, maps and asset maintenance databases. | Reliability | 2020 |
| Advisory Assurance (AA) | Preliminary Scope Information | ERM Risk | Last AA |
| Riverhead-Canal (138kV UG Circuit) | Review project documentation and advise the project team of potential gaps in compliance with project management procedures or where gaps in the control environment exists. | Reliability | New 2021 |
| Electronic Daily Vehicle Inspection Reports (DVIRs) | Review the newly-implemented electronic DVIRs, which replaces manual paper forms, and ascertain adequate control measures are in place. | N/A | New 2021 |
| Project Tracking System | Review and assess management's implementation of the tool, which is a highly customizable system developed by PSE&G for project cost tracking, monitoring, forecasting, accruals, and URB project information for document submittal, approvals and reporting. | Reliability | New 2021 |