



INTERNAL AUDIT UPDATE

Finance & Audit Committee

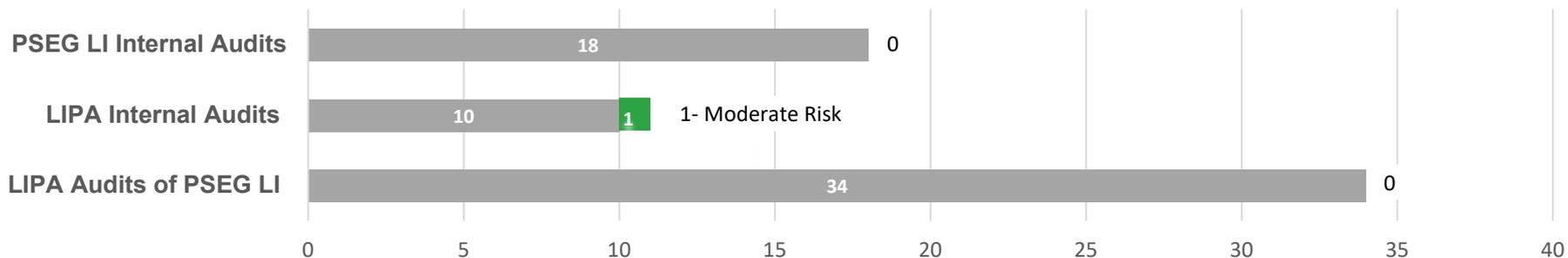
December 16, 2020

2020 AUDIT PLAN STATUS

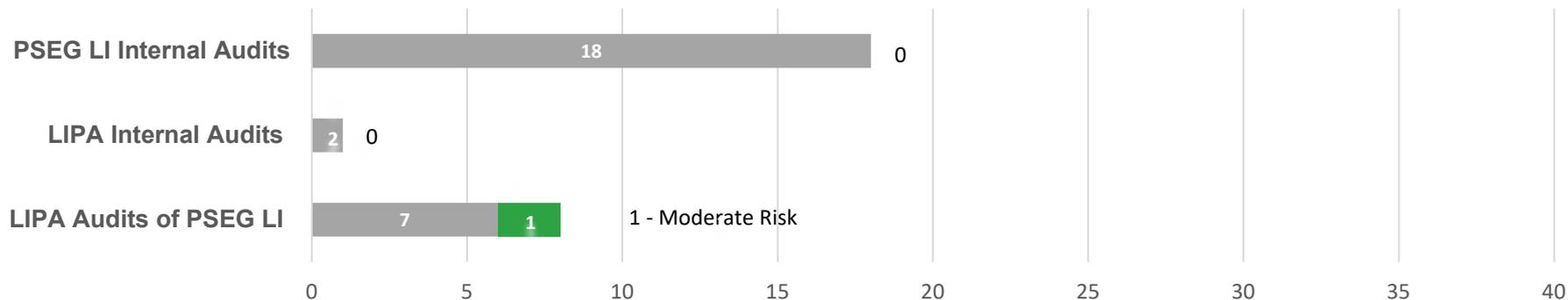
#	Entity	Audit/Review	2020 Audit Plan	Proposed Timing	Status
1	PSEG Long Island	Audit	Customer Protection Programs	4th Qtr	Reporting
2	PSEG Long Island	Audit	Deferred Payment Agreements	1st Qtr	Completed
3	PSEG Long Island	Audit	Capital Project Performance	1st - 2nd Qtrs	Completed
4	PSEG Long Island	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

2017



2018

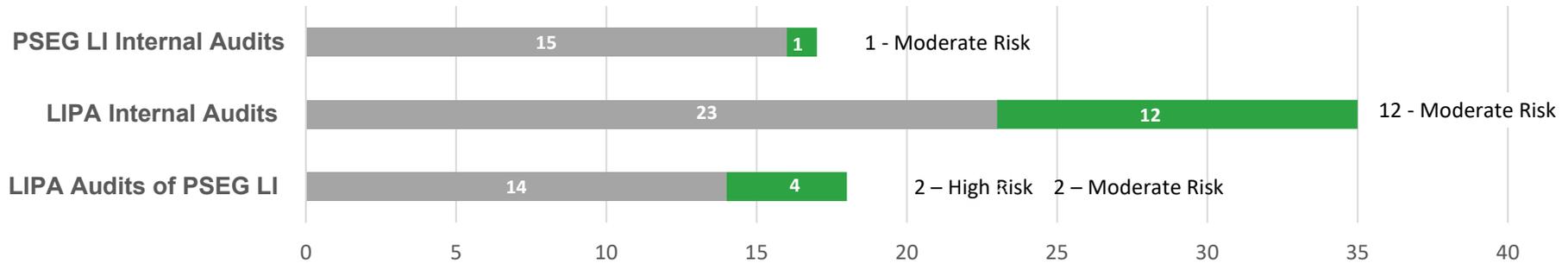


■ # of Management Action Plans Completed

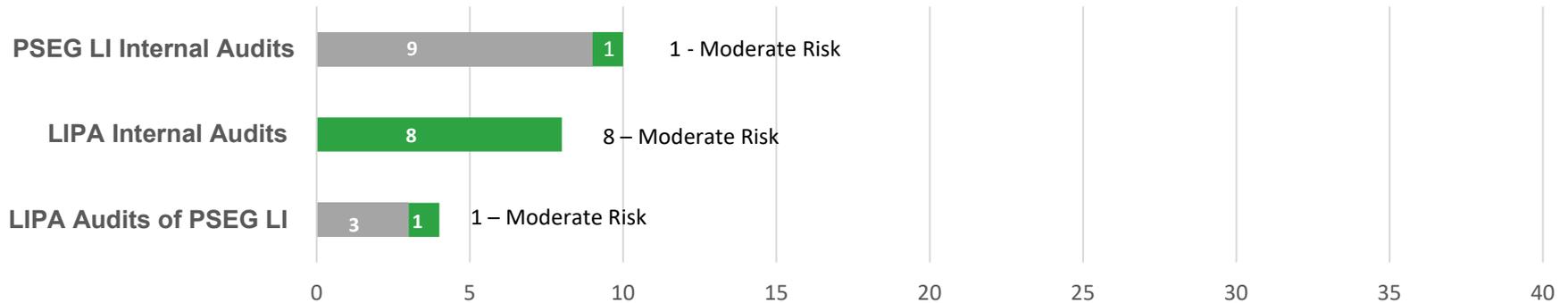
■ # of Management Actions Plans Open

STATUS OF THE IMPLEMENTATION OF MANAGEMENT'S ACTION PLANS

2019



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.

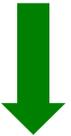
Internal Audit Risk Based Planning Process



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	3 rd 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	2 nd 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	1 st 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	3 rd 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	2 nd Qtr
6	PSEG Long Island	Workforce Management Productivity	Evaluate the adequacy and effectiveness of Workforce Management Productivity.	Risk Area	Reliability	3 rd 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	1 st 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	2 nd 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	3 rd 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	4 th 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
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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