



# INTERNAL AUDIT UPDATE

Finance & Audit Committee

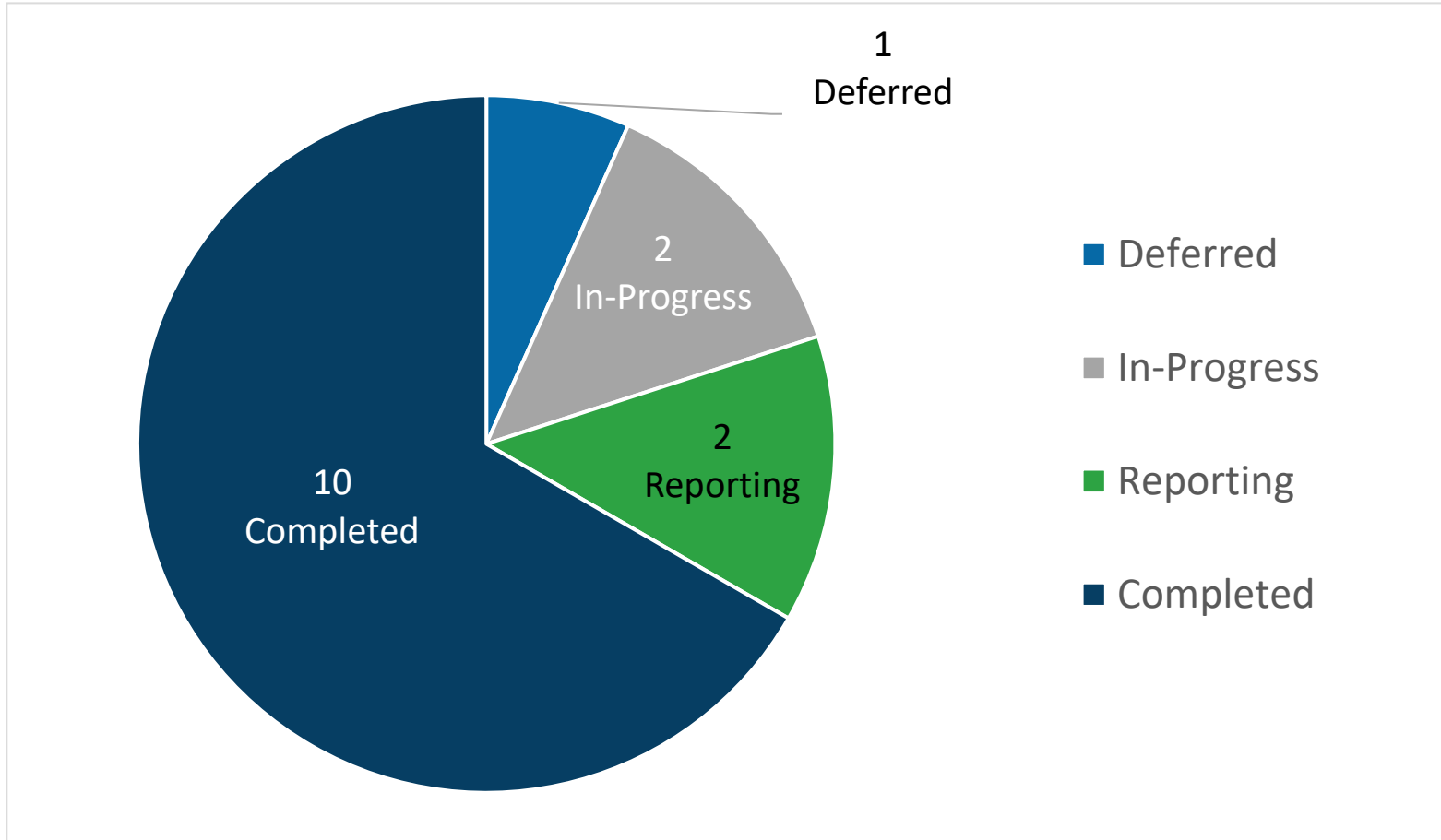
February 17, 2022

# AGENDA

- 2021 Audit Plan Status
- Open Management Action Plans
- CAE Required Communication
- IIA Quality Assurance Review Program

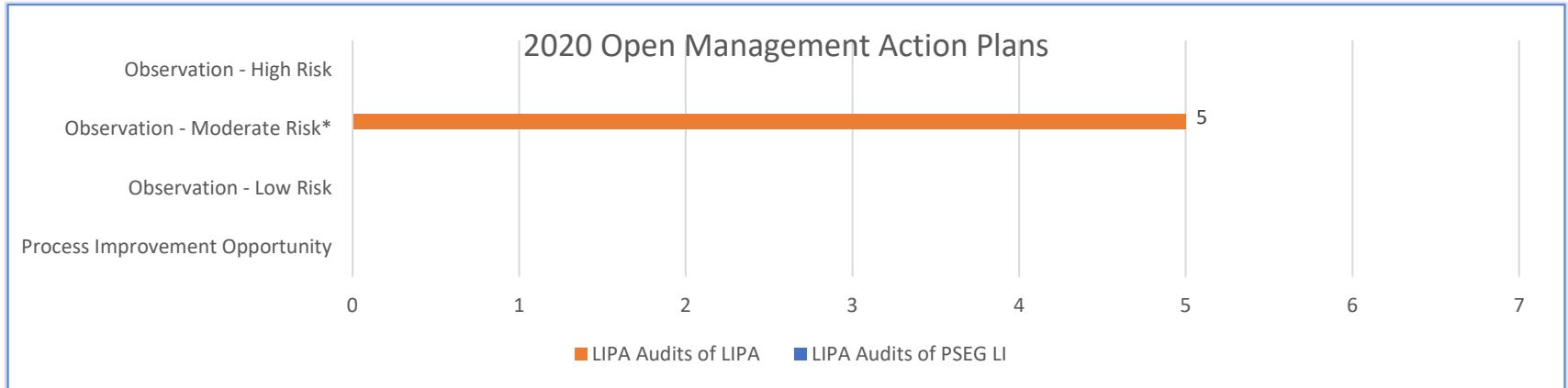


# 2021 AUDIT PLAN STATUS

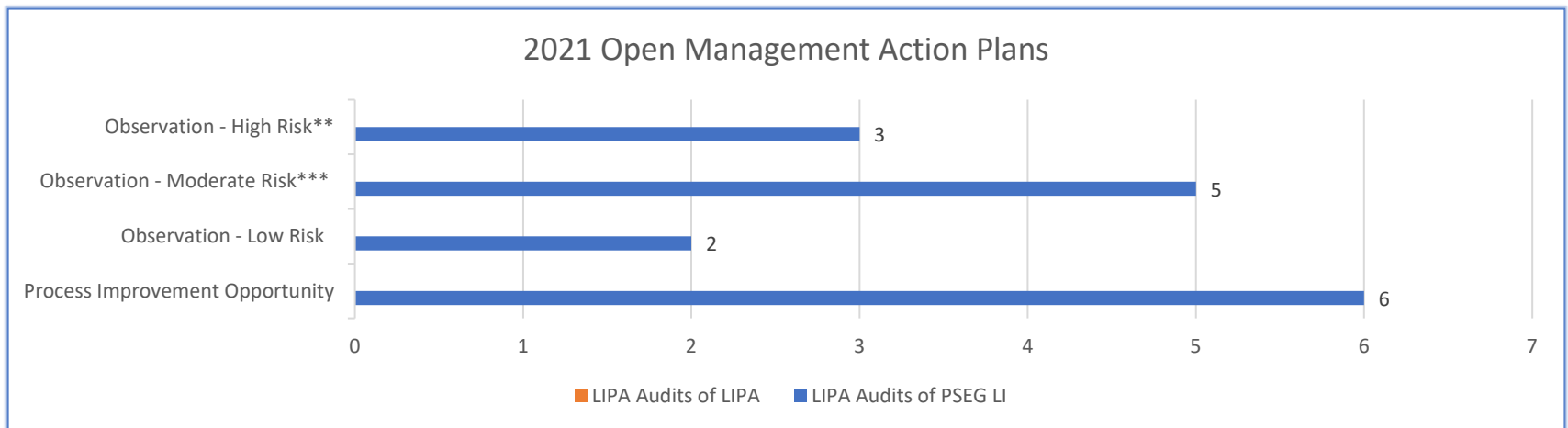


*Refer to Appendix A for detailed listing of 2021 Audits*

# OPEN MANAGEMENT ACTION PLANS



\* LIPA Cybersecurity and Information Technology Back-up and Recovery Audit



\*\* PSEG Long Island Workforce Management Productivity Audit

\*\*\* PSEG Long Island Workforce Management Productivity Audit – 3 / PSEG Long Island SAP Property Records LIPA Audit – 1 / PSEG Long Island SAP Property Records Audit - 1

# CHIEF AUDIT EXECUTIVE (CAE) REQUIRED COMMUNICATION FOR 2021

Standard Communication Requirement	Annual Communication Requirement
<b>1000 The CAE must periodically review the Internal Audit Charter and present it to senior management and the board for approval.</b>	The Internal Audit Charter was amended and presented to senior management and the Finance & Audit Committee for review and approval at the May 19, 2021 Audit Committee Meeting.
<b>1010 The CAE should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.</b>	The Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework is being discussed with senior management and the Finance & Audit Committee at the February 17, 2022 Finance & Audit Committee meeting.
<b>1110 The CAE must confirm to the Audit Committee, at least annually, the organizational independence of the internal auditing activity.</b>	As the CAE, I confirmed the organizational independence of the internal audit activity as of May 19, 2021.
<b>1111 The CAE must communicate and interact directly with the Audit Committee.</b>	As the CAE, I confirm that an appropriate level of communication and interaction has taken place between me and the Finance & Audit Committee.
<b>1312 The CAE must discuss with the board the form and frequency of the external assessment as well as the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest.</b>	Discussions were held at the December 18, 2019 Finance & Audit Committee Meeting related to the form and frequency of the external assessment. We also discussed the qualifications and independence of the external assessment team, including any potential conflicts of interest. The external assessment is only required to be completed every five years.

# CHIEF AUDIT EXECUTIVE (CAE) REQUIRED COMMUNICATION FOR 2021

Standard Communication Requirement	Annual Communication Requirement
<p><b>1320 The CAE must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:</b></p> <ul style="list-style-type: none"> <li>• The scope and frequency of both the internal and external assessments.</li> <li>• The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.</li> <li>• Conclusions of assessors.</li> <li>• Corrective action plans.</li> </ul>	<p>Results of ongoing monitoring of performance were reported to the Finance &amp; Audit Committee as a component of the internal activity reports on February 24, 2021, March 29, 2021, May 19, 2021, August 11, 2021, September 22, 2021, October 29, 2021, and December 15, 2021. The results of the periodic internal self-assessment is being reported to the Finance &amp; Audit Committee on February 17, 2022.</p> <p>Results of the external assessment were reported to the Finance &amp; Audit Committee on December 18, 2019.</p>
<p><b>2020 The CAE 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. The CAE must also communicate the impact of resource limitations.</b></p>	<p>Communication of the status of internal audit plans and resource requirements was reported on at least a quarterly basis to the Audit Committee. At the February 17, 2022 Finance &amp; Audit Committee Meeting, Internal Audit is reporting that there are no audits below the resource cut line on the Proposed 2022 Audit Plan that Internal Audit believed were necessary to be performed in 2022. Accordingly, there were no material impacts associated with resource limitations.</p>

# CHIEF AUDIT EXECUTIVE (CAE) REQUIRED COMMUNICATION FOR 2021

Standard Communication Requirement	Annual Communication Requirement
<p><b>2060 The CAE must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board. There were no situations where the CAE concluded management had accepted an inappropriate level of risk.</b></p>	<p>All required communications have taken place within the established timeframes.            Communications have included information about:</p> <ul style="list-style-type: none"> <li>• The internal audit charter.</li> <li>• Independence of the internal audit activity.</li> <li>• The audit plan and progress against the plan.</li> <li>• Resource requirements.</li> <li>• Results of audit activities.</li> <li>• Conformance with the Code of Ethics and the <i>Standards</i>, and action plans to address any significant conformance issues.</li> <li>• Management’s response to risk that, in the CAE’s judgment, may be unacceptable to the organization.</li> </ul>
<p><b>2600 When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.</b></p>	<p>There were no situations where the CAE concluded management had accepted an inappropriate level of risk.</p>

# IIA Quality Assurance Improvement Program(QAIP)



Completed Annual Self-Assessment QAIP  
Review



Rating – Generally Conforms – Highest Rating



Next External Quality Assurance Review –  
2024 – Every 5 Years



# APPENDIX A - 2021 AUDIT PLAN

#	Business Unit	2021 Audit Plan	Audit Status	Report Rating
1	PSEG Long Island	PSEG Long Island Capital Construction Project Lifecycle	Reporting	
2	PSEG Long Island	Electric Expansion Projects - Capital Project Estimating	Completed	Some Improvement Needed
3	PSEG Long Island	State Environmental Quality Review Act (SEQRA) Compliance	Completed	Effective
4	PSEG Long Island	Storm Compliance - Outage Management System (OMS) Business Continuity (Manual Work Arounds)	Deferred	Carry Over 2022 Audit Plan
5	PSEG Long Island	Storm Compliance - Crew Guides	Completed	Some Improvement Needed
6	PSEG Long Island	Workforce Management Productivity	Completed	Major Improvement Needed
7	PSEG Long Island	Advanced Meter Infrastructure (AMI) - Remote Connects and Disconnects	Completed	Effective
8	PSEG Long Island	Information Technology Operations Review	Reporting	
9	PSEG ER&T	2021 Energy Resources & Trade (ER&T) Metrics	Completed	Effective
10	LIPA	Advisory Review of the 2021 LIPA and UDSA Internal Control Documentation	In-Progress	
11	PSEG Long Island	Affiliate Transactions	In-Progress	
12	PSEG Long Island	DPS Tropical Storm Isaias Costs	Completed	Effective
13	PSEG Long Island	Tropical Storm Isaias Residential and Commercial Reimbursement for Food and Prescription Spoilage Claims	Completed	No Rating
14	LIPA	Debt Management	Completed	Effective
15	PSEG Long Island	PSEG Long Island Procurement – General Contracting, Facilities Maintenance and Snow Removal	Completed	Some Improvement Needed



# **LIPA Proposed 2022 Internal Audit Plan, Budget & Resource Requirements**

Finance & Audit Committee

February 17, 2022

# AGENDA



Institute of Internal Auditors (IIA)  
International Professional Practices Framework



Mission, Purpose, Authority & Responsibility



Internal Audit - Risk Based Planning Process



Proposed 2022 Internal Audit Plan



Proposed 2022 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



2022 Audit Plan

# PROPOSED 2022 INTERNAL AUDIT PLAN

#	Entity	2022 Audit Plan	Audit Objective	Inclusion Reason	ERM Risk	Proposed Timing
1	PSEG Long Island	PSEG Long Island Third Party Risk Management	Evaluate the adequacy and effectiveness of Third-Party Risk Management of suppliers who have access to customer Personal Identifiable Information (PII).	Risk Area	Breach of PII - Customer Data	3 <sup>rd</sup> Qtr
2	PSEG Long Island	PSEG Long Island Expenditure Support	Evaluate the validity, completeness, and accuracy of the PSEG Long Island expenditures on LIPA's behalf withdrawn from the Operating Account.	Management Request	N/A	1 <sup>st</sup> Qtr
3	PSEG Long Island	PSEG Long Island SAP Invoice Payments Cost Element Tagging	Evaluate the accuracy of the tagging of SAP cost elements in capital project invoice payments, which are also utilized to drive allocations performed throughout the assessment cycle process in SAP.	Management Request	Material financial misstatement	3 <sup>rd</sup> Qtr
4	PSEG Long Island	PSEG Long Island Storm and Emergency Services Federal Emergency Management Agency (FEMA) Vendor Contracts	Evaluate the adequacy of the procurement and contract monitoring of Storm and Emergency Services vendor FEMA contracts to determine whether costs are fair and reasonable as compared to the same vendor's Non-FEMA contracts.	Risk Area	Fraud Risk	2 <sup>nd</sup> Qtr
5	PSEG Long Island	PSEG Long Island Nine Mile Point 2 Monthly Invoicing Oversight	Evaluate the completeness and accuracy of monthly invoicing, including operations & maintenance, refuel outage costs and capital expenditures.	Risk Area	Fraud Risk	3 <sup>rd</sup> Qtr
6	PSEG Long Island	PSEG Long Island Vegetation Management	Evaluate the adequacy and effectiveness of PSEG Long Island's Vegetation Management practices, including the oversight of the vegetation contractors who perform distribution and transmission circuit tree trimming.	Risk Area	Major Storm Response - Restoration/ Tree Maintenance	4 <sup>th</sup> Qtr
7	PSEG Long Island	Storm Compliance - Outage Management System - Business Continuity (Manual Work Arouns) *	Evaluate the adequacy and effectiveness of the manual work around processes in the event of an OMS outage.	Risk Area	Extended Outage to the Outage Management System (IT System)	4 <sup>th</sup> Qtr
8	PSEG Long Island	PSEG Long Island Information Technology Vendor Selection and Management	Evaluate the adequacy and effectiveness of Information Technology procurement, accounting and project oversight processes.	Risk Area	Fraud Risk	1 <sup>st</sup> Qtr

\*Deferred from 2021 Audit Plan



# PROPOSED 2022 INTERNAL AUDIT BUDGET

	2022 Budget	2021 Budget	Explanation
Salaries	\$847,250*	\$693,500	2022 - Five (5)* Full-time staff
Internal Audit Consulting	\$1,000,000	\$675,000	Co-sourced - Subject-matter expertise support costs
Training & Other Costs	\$30,000	\$32,700	Includes 48 hours professional development per team member
<b>Total</b>	<b>\$1,877,250*</b>	<b>\$1,401,200</b>	

\* Subject to change



# Proposed Internal Audit Resource Allocation



Internal Audit Resource Allocation - 5,900 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

## **FOR CONSIDERATION**

February 17, 2022

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

**FROM:** Thomas Falcone

**REQUEST:** Approval of the 2022 Internal Audit Plan, 2022 Internal Audit Budget, and Resource Requirements

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### **Requested Action**

The Finance and Audit Committee is requested to approve the 2022 Internal Audit Plan (the “Plan”), 2022 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 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 2022 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 of PSEG Long Island.

### **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 2022 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 2022 Internal Audit Plan, 2022 Internal Audit Budget, and Resource Requirements.

Dated: February 17, 2022



# **PSEG LONG ISLAND 2022 INTERNAL AUDIT PLAN**

Finance & Audit Committee

February 17, 2022

# 2022 Audit Plan – PSEG Long Island

Audit Unit	Preliminary Scope Information	ERM Risk	Last Audit
Storm Compliance - Invoicing	Determine whether PSEG LI invoiced storm costs are accurate and in compliance with the terms of the OSA, LIPA's Guidelines for Storm Invoice Review, and FEMA requirements.	Major Storm	2021
Storm Compliance – DPS Scorecard	Evaluate accuracy of information reported to the DPS subsequent to a storm event.	Major Storm	2021
Utility Review Board (URB)	Evaluate the adequacy of the documentation and effectiveness of the controls within the URB process.	Long Term Forecasting	2020
Electric Expansion Projects	Evaluate the adequacy and effectiveness of processes and controls within a major capital project.	Reliability	2021
Time Sheet Management	Evaluate certain key processes involved with time sheet management for PSEG LI, including recording and approval of time in SAP, accounting for time charged, change management and training.	Reputation	2019
Credit & 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).	Reputation	2020

# 2022 Audit Plan – PSEG Long Island

Audit Unit	Preliminary Scope Information	ERM Risk	Last Audit
Federal Energy Regulatory Commission (FERC) Accounting and Reporting	Ascertain compliance with FERC accounting and financial reporting regulations from an OSA perspective, including ensuring policies, procedures, and roles and responsibilities are properly defined and are adequate.	Compliance	New 2021
Lease Accounting*	Ascertain compliance with GASB 87, Leases, as applicable to LIPA/PSEG LI, and that controls are in place over the completeness and accuracy of the lease information and data compiled by Accounting.	Compliance	New 2021
Storm Hardening (FEMA Compliance)	Review the FEMA grant closeout process and ascertain PSEG LI is in compliance with regulatory requirements.	Regulatory	2021
Operations Services Agreement (OSA) Metrics	Determine the accuracy and reliability of the business metric calculation and reporting to the Balanced Scorecard, including review & approval of data submitted monthly to the Performance Reporting & Analysis team; adequacy of documentation retained in support of the data submitted.	Reputation	2021 (LIPA)
Customer Billing	Evaluate the design and effectiveness of processes and controls to ensure accuracy, completeness and validity of billing calculations, timely handling of billing exceptions, authorized changes to Customer Accounting System (CAS), accuracy of recording of accounts receivable in SAP, and key spreadsheets are protected.	Reputation	2019

# 2022 Audit Plan – PSEG Long Island

Audit Unit	Preliminary Scope Information	ERM Risk	Last Audit
Spend Optimization Suite (SOS)	Assess processes and controls in place to ensure integrity of information entered into SOS and used in the development of the annual capital investment plan.	Long Term Forecasting	2019
Customer Rate Assignment & Migration	Evaluate the adequacy and effectiveness of customer rate assignment and migration for electric rate classes to ensure compliance with the LIPA Tariff for Electric Service.	Compliance	2018 (LIPA)
Deferred Accounting - Storm Cost Deferrals	Review for compliance with US GAAP and FERC accounting and financial reporting regulations, and that controls are in place over the completeness and accuracy of deferred accounting data.	Compliance	New 2021
Inventory Movement	Evaluate the process and controls in place for the removal of inventory from the warehouse to its destination for usage and tracking of unused items.	Reputation	2018
Non-Product Billing (NPB)	Review NPB governance processes and controls within operating areas for tracking NPB transactions, collection of data, and review and approval of information used for customer billing.	Reputation	2018 (LIPA)
Talent Lifecycle	Review and evaluate the practices and programs for talent acquisition and talent management, including those designed to engage, develop, leverage and retain talent.	Reputation	2020 (QIA)

\* Quick Impact Audit

# 2022 Audit Plan – PSEG Long Island

Audit Unit	Preliminary Scope Information	ERM Risk	Last Audit
Field Collections	Evaluate collection measures in place for past due accounts; compliance with HEFPA regulations and DPS Tariff requirements; adequacy of mobile data terminals used for field collections.	Reputation/ Compliance/ Customer Arrears	2017
Review	Preliminary Scope Information	ERM Risk	Last Review
Energy Efficiency Service Provider Contracts	Review Service Provider contracts to ascertain adequacy of cyber language, funding, and that they are current.	Breach of Sensitive Information	New 2022
Management of ServiceNow Tickets	Evaluate the ServiceNow process to ascertain IT requests are closed only upon user acknowledgement that the issue has been resolved.	Customer Expectations	New 2022
Hosting Capacity Map	Ascertain measures are in place to adequately address information security risks (i.e. Personally Identifiable Information {PII} and Company Critical Infrastructure Information {CII}), and compliance with regulatory requirements.	Breach of Sensitive Information/ Compliance	New 2022
Contract Administration Manual (CAM)	Review a sample of CAMs to ascertain adherence with the applicable standards specified in the contracts.	Compliance	New 2022



# 2022 Audit Plan – PSEG Long Island

Review	Preliminary Scope Information	ERM Risk	Last Review
Robotic Process Automation - Non-Sufficient Funds (NSF)	Evaluate procedures to develop, implement and monitor the NSF Bot.	N/A	New 2022
Continuous Auditing (CA)	Preliminary Scope Information	ERM Risk	Last CA
Asset Inventory	Evaluate management's process for ensuring capital improvements made in 2021 are properly reflected in plant records, maps and asset maintenance databases.	N/A	New 2022
Advisory Assurance (AA)	Preliminary Scope Information	ERM Risk	Last AA
Kubra Implementation	Review the implementation process for the new bill printing vendor and advise the project team of any potential gaps.	N/A	New 2022
Flood Mitigation	Provide feedback to the business as they work towards enhancing their flood mitigation measures.	Major Storm	New 2022
Project Tracking System (PTS) - Forecasting Module	Review and assess management's implementation of the PTS Forecasting Module, which is used for document submittal, approvals and reporting.	N/A	New 2022