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Long Island Power Authority (LIPA) 2021 Internal Control Assessment

LIPA maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with U.S. generally accepted accounting principles, and that LIPA assets are properly safeguarded. The system of internal controls is documented, evaluated, and tested on a continuing basis.

To communicate the importance of the internal control program, LIPA's Chief Executive Officer (CEO) distributes a letter to staff detailing the purpose and importance of LIPA's 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 within LIPA and to promptly report such violations to appropriate internal management personnel.

LIPA maintains a written statement, posted on its website, that clearly defines LIPA's purpose. Annually LIPA updates its efforts to align with the strategic direction established by LIPA's Board of Trustees in its policies. This work plan ensures each departmental area has clearly identified responsibilities and objectives.

To ensure controls are properly defined, all departmental policies and procedures are made continuously available to all staff on its networked computer system and through an internally accessible intranet site. LIPA regularly reviews its internal control system through an ongoing process of updating existing policies and procedures ensuring that LIPA's programs and support functions operate as efficiently as possible, while still maintaining appropriate safeguards.

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 also made available through LIPA's intranet site. New employees are also provided with an employee handbook during the onboarding process.

LIPA's employee evaluation platform provides employees online access to their performance evaluations. Managers are required to review job descriptions annually and update, if necessary, and employees receive performance evaluations with clear and concise goals that align with LIPA's overall purpose and objectives. All employees are required to sign these evaluations to ensure expectations are understood.

Annually, LIPA also provides the New York State on-line internal control training program. The finance team attends the conferences to stay abreast of changes in the industry. LIPA licensed professionals complete annual continuing education requirements.

Donna Mongiardo, Vice President-Controller, was appointed Internal Control Officer in March 2016 and this position provides sufficient authority to appropriately implement internal control responsibilities within the organization. The Internal Controls Officer reviews the risk analysis of control objectives and reviews the annual assessment of internal controls performed by the

Internal Audit area.

Annually, LIPA's Internal Audit evaluates control objectives to ensure compliance and best practices are followed. The internal audit department independently assesses the effectiveness of internal controls, reports findings, and recommends possible improvements to management. LIPA's CEO appointed Billy Raley as the Interim Vice President-Audit. The Interim Vice-President-Audit reports directly to the Finance and Audit Committee of the Board for work activities but reports to the CEO for administrative matters as demonstrated in LIPA's organizational chart. The Internal Audit department also has four additional staff positions.

The executive in charge of the internal audit program works with executive management and the Finance and Audit (F&A) Committee to establish an annual audit plan. Audit plans and subsequent results are reported to the F&A Committee after observations are communicated to senior management. The annual audit plan includes audits of LIPA, UDSA (LIPA's component unit), and its Service Provider, PSEG Long Island. Internal Audit's annual audit plan includes control testing to determine whether controls are adequate and being adhered to. When an exception to, or deficiency in, the system of internal controls is identified, the exception is provided to the Internal Control Officer. Management has considered the recommendations of its internal auditors, concerning the system of internal controls, and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations.

LIPA's F&A Committee meets with LIPA's Internal Audit team and the external independent auditors periodically, throughout the year, to discuss internal controls and accounting matters, LIPA's financial statements, the scope, and results of the audit, and the audit programs of the LIPA's internal auditing department. The independent auditors, and Internal Audit have direct access to the F&A Committee. The F&A Committee annually reviews and provides guidance on the audit plan as well as the charter, activities, budget, and organizational structure of the Internal Audit Department and confirms the independence of the internal auditors. The Committee monitors, in consultation with management, the significant findings of internal audit reports and the status of the implementation of management's action plans in response to such audit findings.

Furthermore, LIPA has a dedicated Enterprise Risk Management group to identify operating and other risks within each business unit and assist such business units in developing an ongoing risk identification, monitoring, and mitigation program.

Additionally, as part of its audit of LIPA's consolidated financial statements, KPMG LLP, LIPA's independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LIPA's internal controls over financial reporting. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

Based on its structure and related processes, management believes that, as of December 31, 2021, LIPA's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.