



INTERNAL AUDIT UPDATE

Finance & Audit Committee

February 15, 2023

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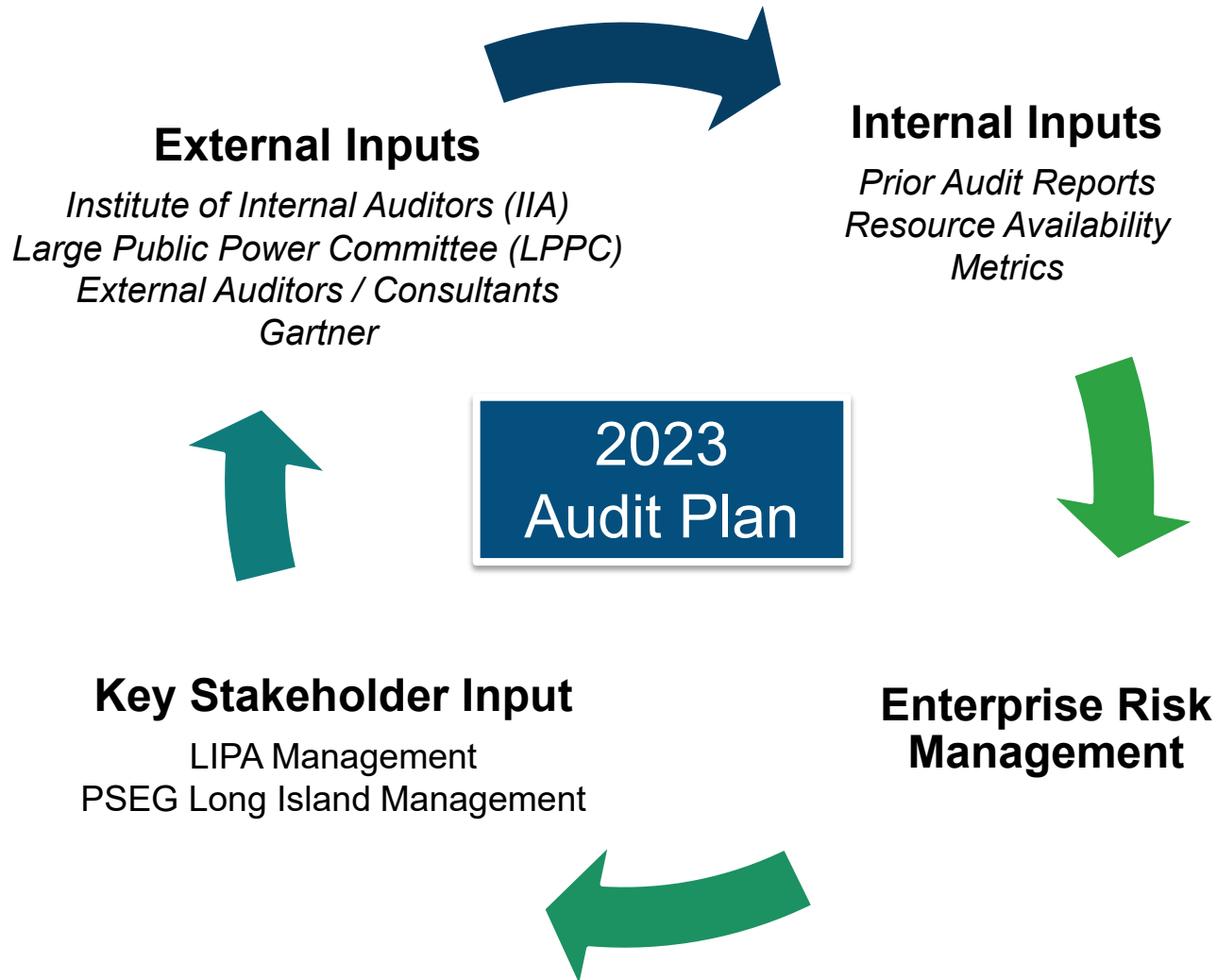
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AUDIT PLAN RISK-BASED PLANNING PROCESS



PROPOSED 2023 AUDIT PLAN AND ACTIVITIES

Item # Proposed 2023 Audit Plan			
1	PSEG Long Island	Locate and Mark	Ensure the adequacy and effectiveness of locate and mark processes ensuring appropriate monitoring of activities, timeliness of responses, accuracy of markings and assignment of activities.
2	PSEG Long Island	Marketing and Advertising	Evaluate the adequacy, effectiveness and accuracy of the Marketing and Advertising process including review of monitoring, approvals, accuracy of the budget to forecast process, disclosures and appropriateness of market segmentation.
3	LIPA and UDSA	Select Internal Control review	Evaluate the adequacy and effectiveness of select key internal controls for LIPA and UDSA's Business Processes. Scope for 2023 to include Debt Management and Procurement. Review of LIPA and UDSA Internal Control processes to be completed over 3 year planning cycle.
4	PSEG Long Island	Time Sheet Reporting	Evaluate the adequacy, effectiveness and accuracy of the time sheet reporting process ensuring overtime hours are properly monitored, approved and appropriate.
5	PSEG Long Island	Fixed Asset Inventory and Goods Received	Evaluate management's process for ensuring fixed assets are properly received, additions and deletions are properly recorded, and accounting records and databases are complete and accurate.
6	PSEG Long Island	Non-Product Billing	Ensure the adequacy, effectiveness and accuracy of select non-product billing charges and receivables for categories such as interconnections, accommodations, and CIAC charges (i.e. relocation of facilities, etc.).
7	PSEG Long Island	Customer Service Call Center Review	Evaluate the adequacy, effectiveness and timeliness of the call center remediation efforts related to issues identified during the 2022 JD Power survey results.
Item # Proposed 2023 Audit Assist Projects			
1	PSEG Long Island	Vendor Management Process	Ensure the adequacy and effectiveness of the vendor selection, scoring, monitoring, and access control procedures and processes. This review will be performed in conjunction with the LIPA Legal, Procurement and ERM teams.
2	PSEG Long Island	Metric Response Standardization	Assist LIPA Strategy Management with the development of formalized standards for the PSEG Long Island Metric Response process, ensuring metrics are completed timely, accurately (data integrity validation) and adequately to ensure consistency and adherence with LIPA management expectations.
3	PSEG Long Island	Deferred Payment Agreements	Evaluate the adequacy and effectiveness of the deferred payment program in compliance with the Home Energy Fair Practices Act (HEFPA) and Metric CS-23.
4	PSEG Long Island	Storm Compliance / Invoice Analysis	Assist LIPA Management with the development of key indicator reports for the PSEG Long Island storm invoice process, enabling analysis of storm invoices for timeliness of submissions and accuracy (data integrity validation) to ensure consistency and adherence with LIPA management expectations.

INTERNAL AUDIT BUDGET AND RESOURCES

Proposed 2023 Budget	2023 Budget	2022 Budget	Comments
Salaries	\$665,500	\$632,249	2023 – Includes Five (5) Full-time staff. Currently one position open.
Internal Audit Consulting	\$1,200,000	\$1,100,000	Co-Sourced Internal Audit Activities – inclusion of Subject Matter Experts
Training / Other Costs	\$50,000	\$47,500	Includes professional development training, subscriptions, and business travel
Total	\$1,915,500	\$1,779,749	

Resource Allocations

Current Internal Audit resource allocation is 5,900 hours (including one open position), and an additional 1,000 Contingency hours for any additional audit activities that arise based on continuous risk assessments.

Co-Sourced subject matter expertise resource allocation is 3,500 hours.

Internal Audit Resource Allocation is deemed appropriate, sufficient, and effectively deployed to achieve the proposed audit plan.



SECTION II

INTERNAL AUDIT ACTIVITIES

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AUDIT PLAN AND ACTIVITIES STATUS

		Completion Status				
		Complete	Reporting	In Process	Delayed	Not Started
Entity	Audit / Review Name	2023				Reporting Rating
2022 Internal Audit Plan (Audits carried into 2023)		Q1	Q2	Q3	Q4	
PSEG Long Island	**Storm Compliance / OMS					Audit Deferred to 2024
PSEG Long Island	Third Party Risk Management	*				
PSEG Long Island	Vendor Contracts Review	*				Some Improvement Needed
PSEG Long Island	Nine Mile Point 2 Monthly Invoicing Oversight					
PSEG Long Island	SAP Invoice Payments Cost Element Tagging	*				
PSEG Long Island	Vegetation Management	*				
PSEG Long Island	IT Vendor Selection and Management					
Proposed 2023 Audit Plan						
PSEG Long Island	Locate and Mark					
PSEG Long Island	Marketing and Advertising					
LIPA and UDSA	Select Internal Control review					
PSEG Long Island	Time Sheet Reporting					
PSEG Long Island	Fixed Asset Inventory and Goods Received					
PSEG Long Island	Non-Product Billing					
PSEG Long Island	Customer Service Call Center Review					
Proposed 2023 Audit Assist Projects						
PSEG Long Island	Vendor Management Process					
PSEG Long Island	Standardization of Metric Responses					
PSEG Long Island	Deferred Payment Agreements					
PSEG Long Island	Storm Invoice Analysis					

*Note – Audit Status Changed since December 14, 2022, Finance and Audit Committee Meeting.

**Note – Audit deferred to 2024 as LIPA Management performing review for 2023.

OPEN MANAGEMENT ACTION PLANS

Audit Name	Report Rating	Total # of Open Observations	# of Open High-Risk Observations*	Business Unit	Action Plan Status (High-Risk Observations)
PSEG Long Island Storm Compliance – Crew Guides Audit (Audit Issued 2021)	Some Improvement Needed	1		PSEG Long Island	
PSEG Long Island Inventory Material Controls during Storm Events Review (Audit Issued 2022)	Some Improvement Needed	2	1	PSEG Long Island	Due: 3/31/2023
Follow-up Review of the PSEG Long Island Capital Construction Project Lifecycle Audit (Audit Issued 2022)	N/A	5		PSEG Long Island	
PSEG Long Island Vendor Contracts Review Audit (Audit Issued 2023)	Some Improvement Needed	4		PSEG Long Island	

***Note** – High-Risk observations require immediate Management attention.



APPENDIX A AUDIT AND ACTION PLAN STATUS DESCRIPTIONS

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APPENDIX A: AUDIT AND ACTION PLAN STATUS DESCRIPTIONS

Audit Report Opinions Descriptions (Page 4)

Report Opinions	Report Opinion Description
Effective	Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives will be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally, however, controls are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives will be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives will be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives will be met.

Observation Risk Ratings Descriptions (Page 5)

Management Action Plan Status	Management Action Plan Status Description
	Satisfactory action plan in place, key milestones on track, reasonable confidence that the action plan will be executed timely and properly
	Some concerns (doubts) that the action plan will be executed timely or properly
	Unsatisfactory significant slippage in actions or requires re-planning



APPENDIX B

2023 PSEG LONG ISLAND AUDIT PLAN

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2023 Audit Plan – PSEG Long Island

Audit Unit	Preliminary Scope Information	ERM Risk	Last Audit
Meter Inventory Management	Determine whether an accurate physical inventory of meters is maintained, meter calibration tests are performed in accordance with regulatory requirements and new meter installation process includes collaboration with various areas of the business.	Reliability	2018
Customer Data Protection	Evaluate the adequacy and effectiveness of practices for protecting customer Personal Identifiable Information (PII) and Protected Health Information (PHI) and that customer data is appropriately secured from fraudulent use.	Reputation	2019 (LIPA)
Customer Protections Program	Evaluate the adequacy of the Critical Care Program (LSE), Medical Emergency process, and Elderly, Blind and Disabled program, and compliance with regulatory requirements.	Reputation	2020 (LIPA)
Deferred Payment Agreement	Ascertain procedures are in place for deferred payment agreements, as well as applicable Deferred Payment Agreement (DPA) Reporting, determination of customer resources, and adherence with DPA agreement terms.	Reputation	2020 (LIPA)
Project Planning and Management	Ascertain adherence with Playbook policies and procedures and capital Project Plan, including the technical aspects of P&C processes for planning to execute a capital project.	Reputation	2021
Environmental Permitting	Review written process documentation for the different job types and associated notification requirements, as well as appropriateness of job releases to construction, and tracking of environmental permitting reviews.	Compliance	2019

2023 Audit Plan – PSEG Long Island

Audit Unit	Preliminary Scope Information	ERM Risk	Last Audit
Electric System Operation Center (ESOC)*	Evaluate the adequacy and effectiveness of certain key processes and controls within the management and operations of PSEG LI's ESOC.	Primary Control Center in Need of Modernization	New 2014
Vendor Contracts	Evaluate PSEGLI's contract management process to assure compliance with contract conditions.	Compliance	2020
Health and Welfare Benefits Administration	Ensure the integrity of the PSEG LI benefits program and review member eligibility to ascertain there is oversight by HR of the various third party service provider contracts.	Regulatory	2019
Operations Services Agreement (OSA) Metrics	Determine the accuracy and reliability of the business metric calculation and reporting, including review & approval of data submitted to LIPA, and adequacy of supporting documentation.	Reputation	2022
Storm Compliance - Asset Tracking & Storm Drills	Determine whether assets are properly tracked during storm events and also the adequacy of storm drills.	Major Storm	2022

* Quick Impact Audit

2023 Audit Plan – PSEG Long Island

Audit Unit	Preliminary Scope Information	ERM Risk	Last Audit
Social Media	Evaluate PSEG LI's social media governance, policies, procedures, monitoring, training and awareness functions and processes.	Reputation	2018
Outreach and Communications	Ensure capital project outreach efforts are cost-efficient and on target for achieving results; evaluate the use and effectiveness of communications with customers on scheduled tree trim routes; determine the effectiveness of outreach efforts for the energy efficiency and low-income program; determine whether the External Affairs Handbook is up-to-date; meetings with impacted officials are documented; and whether capital project-related outreach efforts provide specific details regarding the work performed.	Reputation	2019
Physical Security	Evaluate the physical security measures in place to prevent, detect and address unauthorized access to PSEG LI facilities.	Physical Asset Protection	2018

2023 Audit Plan – PSEG Long Island

Review	Preliminary Scope Information	ERM Risk	Last Review
Energy Efficiency Service Provider Contracts	Review Service Provider contract to ascertain process is setup properly to collect funds and track payments.	Customer Expectations	New 2023
Property Records Training	Ascertain LMS training was completed by various PSEG LI individuals on retaining property records documentation, as required per LIPA's Post Debt Issuance Compliance Record Retention Requirement.	Compliance	New 2023
New Hire Onboarding	Review the process for providing new hires with their LAN ID, creation of email, and issuance of laptop timely so they can start working on Day 1 of employment.	Expectations	New 2023
Purchase Cards and Storm Cards	Review Purchase and Storm card transactions and approval process to ascertain compliance with the Program.	Compliance	New 2023
Power Supply Charge	Evaluate accuracy, completeness and validity of data provided in support of computing the power supply charge.	Customer Expectations	New 2023
System Implementation - Catalyst	Review the PSEG LI system separation implementation process for Catalyst to ascertain proper steps were taken prior to go-live.	Implementation	New 2023
System Implementation – PowerPlan	Review the PSEG LI system separation implementation process for PowerPlan to ascertain proper steps were taken prior to go-live.	Implementation	New 2023
System Implementation – SAP-ECC	Review the PSEG LI system separation implementation process for SAP-ECC to ascertain proper steps were taken prior to go-live.	Implementation	New 2023

2023 Audit Plan – PSEG Long Island

Continuous Auditing (CA)	Preliminary Scope Information	ERM Risk	Last CA
Asset Inventory	Evaluate management's process for ensuring capital improvements made in 2022 are properly reflected in plant records, maps and asset maintenance databases.	Compliance	2022
Advisory Assurance (AA)	Preliminary Scope Information	ERM Risk	Last AA
Integrated Tools for Operations Application (ITOA) software implementation	Review the implementation process for the ITOA software, which will be used to consolidate current Access database needs, and advise the project team of any potential gaps.	Implementation	New 2023
Time of Day Implementation	Review the implementation process for TOD and advise the project team of any potential gaps.	Implementation	New 2023
Contact Center as a Service (CCaaS) Implementation	Review the implementation process for CCaaS and advise the project team of any potential gaps.	Implementation	New 2023

FOR CONSIDERATION

February 15, 2023

TO: The Finance and Audit Committee

FROM: Catherine Widmark

REQUEST: Approval of the 2023 Internal Audit Plan, 2023 Internal Audit Budget, and Resource Requirements

Requested Action

The Finance and Audit Committee is requested to approve the 2023 Internal Audit Plan (the “Plan”), 2023 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 2023 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 six (6) audits of PSEG Long Island 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 2023 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 2023 Internal Audit Plan, 2023 Internal Audit Budget, and Resource Requirements.

FOR CONSIDERATION

February 15, 2023

TO: The Finance and Audit Committee

FROM: Catherine Widmark

REQUEST: Recommendation for Approval of Revised Internal Audit Charter

Requested Action

The Finance and Audit Committee (the “Committee”) is requested to adopt a resolution recommending revisions to the Long Island Power Authority (the “LIPA”) Internal Audit Charter (the “Charter”) in the form attached hereto.

Background

The Charter, which was most recently adopted by the Committee on May 18, 2022, establishes the purpose, authority, and responsibilities of LIPA’s Internal Audit.

Proposed Changes

Consistent with the Charter, the Committee has undertaken a thorough annual review of the Charter’s adequacy. Suggested revisions include:

- update the reference to the International Standards for the Professional Practice of Internal Auditing as the “Standards”;
- update any reference of the individual serving as the Chief Audit Executive to the Director of Audit Services (serving as the Chief Audit Executive);
- update that the Chief Audit Executive will report administratively to the Chief Executive Officer;
- update that the Committee will meet at least twice per year with the Chief Audit Executive independent of other LIPA staff and will report any significant audit findings to the Board in a timely manner; and
- update the reference that the Chief Audit Executive will confirm to the Committee, at least annually, the internal audit activity’s conformance to the Code of Ethics and the Standards.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by adoption of a resolution in the form of the draft resolution attached hereto.

Attachments

Exhibit “A” Resolution

Exhibit “B” Internal Audit Charter — Redline

Exhibit “C” Internal Audit Charter — Clean Version for Adoption

**RECOMMENDATION FOR APPROVAL OF REVISED LONG ISLAND POWER
AUTHORITY INTERNAL AUDIT CHARTER**

WHEREAS, on May 18, 2022, the Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) last adopted the Internal Audit Charter (“Charter”) which establishes, among other things, the purpose, authority, and responsibilities of LIPA’s Internal Audit; and

WHEREAS, the Committee has reviewed the proposed revised Charter and believes it is reasonable and appropriate to approve for the reasons set forth in the accompanying memorandum.

NOW, THEREFORE, BE IT RESOLVED, that the Committee hereby adopts the Long the Charter in the form presented at this meeting.

**LONG ISLAND POWER AUTHORITY
INTERNAL AUDIT CHARTER**

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Long Island Power Authority ("LIPA"). It assists LIPA in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

ROLE:

The internal audit function is established by the Board of Trustees and is overseen by the Finance and Audit Committee of the Board of Trustees. The internal audit function's responsibilities are defined by this Charter.

PROFESSIONALISM:

The internal audit activity will adhere to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (["Standards"](#)) and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and principles against which to evaluate the effectiveness of the of the internal audit activity's performance.

The Institute of Internal Auditors' Recommended and Supplemental Guidance will also be adhered to as applicable to guide operations.

In addition, the internal audit activity will adhere to LIPA's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

INTERNAL AUDIT AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, 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. All employees are expected to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Finance and Audit Committee.

ORGANIZATION:

The ~~individual serving as chief audit executive~~[Director of Audit Services \(serving as the Chief Audit Executive\)](#), will report on functional matters to the Finance and Audit Committee and administratively (i.e. day to day operations) to the ~~Senior Vice President of Transmission and Distribution~~[Chief Executive Officer](#).

The Finance and Audit Committee will:

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the ~~individual serving as chief audit executive~~Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.
- Review and approve the appointment or removal of the ~~individual serving as Chief Audit Executive~~.
- Delegate to the CEO the power to appoint an individual to serve as chief audit executive on an interim basis.
- Make appropriate inquiries of management and ~~the individual serving as chief audit executive~~Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

The ~~individual serving as chief audit executive~~Chief Audit Executive will communicate and interact directly with the Finance and Audit Committee members, including in executive sessions and between Board meetings as appropriate. The Finance and Audit Committee will meet at least twice per year with the Chief Audit Executive independent of other LIPA staff and will report any significant internal audit findings to the Board in a timely manner.

INDEPENDENCE AND OBJECTIVITY:

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

~~The individual serving as chief audit executive~~The Chief Audit Executive will confirm to the Finance and Audit Committee, at least annually, the organizational independence of the internal audit activity and on its conformance with the Code of Ethics and the Standards.

RESPONSIBILITY:

The scope of internal auditing encompasses, but is not limited to, the 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. Assurance engagements include:

- Evaluating risk exposure relating to achievement of the organization's mission.

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

The internal audit activity may perform consulting, advisory and related client service engagements and activities, the nature and scope of which will be agreed with the client, provided that the internal audit activity does not assume management responsibility. Consulting engagements include, but are not limited to:

- Participation in significant system implementation efforts.
- Specific management requests to promote efficiency and effectiveness of an operation or processes.

INTERNAL AUDIT PLAN:

At least annually, the ~~individual serving as chief audit executive~~Chief Audit Executive will submit to senior management and the Finance and Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The ~~individual serving as chief audit executive~~Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to the Chief Executive Officer and the Finance and Audit Committee.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Finance and Audit Committee. The ~~individual serving as chief audit executive~~Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Finance and Audit Committee through periodic activity reports.

It is recognized that LIPA has contracted with PSEG Long Island and other entities to carry out certain functions. Internal Audit activity will encompass services provided by such service providers and the internal audit plan will reflect the scope of internal audit responsibility.

REPORTING AND MONITORING:

A written report will be prepared and issued by the ~~individual serving as chief audit executive~~Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Finance and Audit Committee.

The internal audit report may include management's response (LIPA, PSEG Long Island, or other service providers, as the case may be) and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The ~~individual serving as chief audit executive~~Chief Audit Executive will periodically report to the Chief Executive Officer and the Finance and Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Finance and Audit Committee.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The ~~individual serving as chief audit executive~~Chief Audit Executive will communicate to senior management and the Finance and Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments.

Internal Audit Activity Charter

Approved this _____ day of _____, _____.

Chief Audit Executive

Chairman of the Finance & Audit Committee

Chief Executive Officer

**LONG ISLAND POWER AUTHORITY
INTERNAL AUDIT CHARTER**

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Long Island Power Authority ("LIPA"). It assists LIPA in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

ROLE:

The internal audit function is established by the Board of Trustees and is overseen by the Finance and Audit Committee of the Board of Trustees. The internal audit function's responsibilities are defined by this Charter.

PROFESSIONALISM:

The internal audit activity will adhere to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing ("Standards") and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and principles against which to evaluate the effectiveness of the of the internal audit activity's performance.

The Institute of Internal Auditors' Recommended and Supplemental Guidance will also be adhered to as applicable to guide operations.

In addition, the internal audit activity will adhere to LIPA's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

INTERNAL AUDIT AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, 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. All employees are expected to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Finance and Audit Committee.

ORGANIZATION:

The Director of Audit Services (serving as the Chief Audit Executive), will report on functional matters to the Finance and Audit Committee and administratively (i.e. day to day operations) to the Chief Executive Officer.

The Finance and Audit Committee will:

- Approve the internal audit charter.

- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.
- Review and approve the appointment or removal of the Chief Audit Executive.
- Delegate to the CEO the power to appoint an individual to serve as chief audit executive on an interim basis.
- Make appropriate inquiries of management and Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

The Chief Audit Executive will communicate and interact directly with the Finance and Audit Committee members, including in executive sessions and between Board meetings as appropriate. The Finance and Audit Committee will meet at least twice per year with the Chief Audit Executive independent of other LIPA staff and will report any significant internal audit findings to the Board in a timely manner.

INDEPENDENCE AND OBJECTIVITY:

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Finance and Audit Committee, at least annually, the organizational independence of the internal audit activity and on its conformance with the Code of Ethics and the Standards.

RESPONSIBILITY:

The scope of internal auditing encompasses, but is not limited to, the 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. Assurance engagements include:

- Evaluating risk exposure relating to achievement of the organization's mission.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

The internal audit activity may perform consulting, advisory and related client service engagements and activities, the nature and scope of which will be agreed with the client, provided that the internal audit activity does not assume management responsibility. Consulting engagements include, but are not limited to:

- Participation in significant system implementation efforts.
- Specific management requests to promote efficiency and effectiveness of an operation or processes.

INTERNAL AUDIT PLAN:

At least annually, the Chief Audit Executive will submit to senior management and the Finance and Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to the Chief Executive Officer and the Finance and Audit Committee.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Finance and Audit Committee. The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Finance and Audit Committee through periodic activity reports.

It is recognized that LIPA has contracted with PSEG Long Island and other entities to carry out certain functions. Internal Audit activity will encompass services provided by such service providers and the internal audit plan will reflect the scope of internal audit responsibility.

REPORTING AND MONITORING:

A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Finance and Audit Committee.

The internal audit report may include management's response (LIPA, PSEG Long Island, or other service providers, as the case may be) and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Chief Audit Executive will periodically report to the Chief Executive Officer and the Finance and Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Finance and Audit Committee.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Finance and Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments.

Internal Audit Activity Charter

Approved this _____ day of _____, _____.

Chief Audit Executive

Chairman of the Finance & Audit Committee

Chief Executive Officer