

FOR CONSIDERATION

June 28, 2023

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Consideration of Approval of the Annual Report and Amendments to the Board Policy on Audit Relationships

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution (i) approving the annual report on the Board Policy on Audit Relationships (the “Policy”); (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy, which resolution is attached hereto as **“Exhibit A”**.

Board Policy on Audit Relationships

The Finance and Audit Committee (“F&A Committee”), in its Charter, was delegated the responsibility for reviewing LIPA’s audit-related policies and practices.

The Policy defines the expectations of the Board regarding the existing authority granted to the F&A Committee for, among other matters (i) selecting an independent certified public accounting firm to conduct annual audits of LIPA; (ii) the annual review of the audit plan as well as the Charter, activities, staffing, budget, and organizational structure of Internal Audit, and confirming the independence of the internal auditors; (iii) monitoring, in consultation with the Chief Audit Executive (“CAE”), the significant findings of internal audit reports and the status of the implementation of management’s action plans in response to such audit findings; (iv) setting forth the procedures for the Board of Trustees’ receipt, review and implementation of any recommendations in a Management and Operations Audit conducted by the New York State Department of Public Service (“DPS”).

Since the last review of the Policy, the following activities have been performed consistent with the Policy:

Independent External Auditor

- The Board previously selected KPMG as the independent certified public accounting firm to conduct annual audits of LIPA. In March 2023, the F&A Committee met with KPMG to complete its annual 2022 annual audit. KPMG reported no significant findings as a result of its audit.

Internal Auditors

- In November 2022, the F&A Committee approved the appointment of the current CAE.
- Internal Audit conducted audits as identified in the annual audit plan and special projects requested by the F&A Committee or management. Internal audit activities were performed in accordance with the Institute of Internal Auditors' Mandatory Guidance.
- In February 2023, the F&A Committee reviewed and approved the audit plan, charter, activities, staffing, budget, and organizational structure of the internal audit department, and confirmed the independence of the internal auditors.
- The CAE met with the F&A Committee at each Board meeting to discuss internal audit activities and progress toward remediation of Management Action Plans in response to internal audit findings.
- The CAE met with the F&A Committee at least twice per year in executive sessions independent of other LIPA staff and reported significant internal audit findings to the Board in a timely manner.

DPS Management and Operations Audits

- In November 2022, LIPA staff briefed the Board on the implementation plan resulting from the 2018 DPS Management and Operations Audit. The materials related to that Board item are located at this [link](#). LIPA staff will provide the annual update on the status of the 2018 recommendations at the Board's November 2023 meeting.
- As required by the LIPA Reform Act, DPS selected NorthStar Consultant Group to conduct the current Management and Operations Audit. Upon recommendation from DPS, the Board authorized LIPA to enter into a contract with NorthStar to conduct the required operations and management audit. NorthStar kicked off the current audit in October 2022. To date, NorthStar has issued over 800 document requests and almost 100 interview requests. LIPA Staff continues to work with PSEG Long Island, NorthStar, and DPS in furtherance of the audit.

Annual Review of the Policy

The proposed changes to the Board Policy include conforming the policy to the Board's other policies by stating a vision for audit relationships, a change in the reporting relationship of the CAE, and minor stylistic changes. The CAE will now report administratively to LIPA's Chief Executive Officer. The proposed changes to the Policy are more specifically set forth in **Exhibit "B"**.

Recommendation

Based upon the foregoing, I recommend the approval of the adoption of the resolution in the form attached hereto as **Exhibit "A"**.

Attachments

Exhibit "A" Resolution

Exhibit "B" Board Policy on Audit Relationships (redline)

Exhibit "C" Board Policy on Audit Relationships (clean)

RESOLUTION APPROVING THE ANNUAL REPORT AND AMENDMENTS TO THE LONG ISLAND POWER AUTHORITY BOARD POLICY ON AUDIT RELATIONSHIPS

WHEREAS, the Board of Trustees (the “Board”) of Long Island Power Authority (“LIPA”) is responsible for setting LIPA’s audit relationship policy and overseeing its fulfillment; and

WHEREAS, the Finance & Audit Committee (the “F&A Committee”), in its Charter, was delegated the responsibility of reviewing LIPA’s policies regarding audit relationships; and

WHEREAS, in LIPA’s By-Laws, LIPA’s Board delegated certain responsibilities to the Chief Executive Officer for managing and directing LIPA Staff; and

WHEREAS, policies addressing audit relationships have been recommended by the F&A Committee for adoption by the Board.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that LIPA has complied with Policy for the period since the last annual review and approves the annual report to the Board; and

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the changes to the Policy that are reflected in **Exhibit “B”** are hereby approved.

Dated: June 28, 2023



Board Policy:	<u>Audit Relationships</u>
Policy Type:	Governance Process
Monitored by:	Finance and Audit Committee
Board Resolution:	#1355, approved March 29, 2017 #1410, amended March 29, 2018 #1420, amended July 25, 2018 #1462, amended January 23, 2019 #1528, amended, May 20, 2020 #1632, amended, May 19, 2021 #1725, amended, May 18, 2022 <u>[#xxxx], amended, June 28, 2023</u>

Board Policy on Audit Relationships

LIPA's vision for audit relationships is to use audits to provide independent, objective assurance to the Board of Trustees (the "Board"), management, and stakeholders designed to improve LIPA's operations, risk management, controls, and governance processes, including those managed on LIPA's behalf by service providers.

To achieve our vision for audit relationships, LIPA will do the following: The Board of Trustees (Board) shall do the following regarding the independent external auditor, the internal auditors of LIPA, and the management and operations audits conducted by the Department of Public Service.

Independent External Auditor

- The Board, on the recommendation of the Finance and Audit Committee (the "F&A Committee"), will select an independent certified public accounting firm to conduct annual audits of LIPA. The Board will make the choice of the external auditor based on advice from staff and others as it deems necessary to exercise prudent, independent judgement~~judgment~~.
- The ~~Finance and Audit~~F&A Committee will annually review the audit services to be performed by such independent auditor, including the scope, fees, and terms thereof and all relationships between the auditor and LIPA.
- The ~~Finance and Audit~~F&A Committee will meet each year with the external auditors at the commencement of the annual audit and again after the audit is complete. The meeting at the completion of the audit will be independent of staff. The F&A Committee members will report any significant findings to the Board in a timely manner.

Internal Auditors

LIPA's internal auditors provide independent, objective assurance and consulting services to the Board and management designed to improve the organization's operations, risk

management, control, and governance processes.

- ~~The internal audit activity~~ LIPA's internal auditors will adhere to ~~t~~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, and the Definition of Internal Auditing.
- ~~The I~~nternal auditors shall conduct audits as identified in the annual audit plan as well as special projects requested by the ~~Finance and Audit~~ F&A Committee, or management.
- The annual audit plan will include audits of LIPA and its service providers, and the internal auditors shall have unlimited access to all activities, records, property, and personnel of LIPA and its service providers in the performance of their duties.
- The ~~Finance and Audit~~ F&A Committee will annually review and provide guidance on the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit ~~d~~Department and will confirm the independence of the internal auditors. The ~~individual serving as c~~Chief ~~a~~Audit ~~e~~Executive shall administratively report to the ~~Chief Administrative Officer~~ Senior Vice President of Transmission and Distribution Chief Executive Officer.
- The ~~Finance & Audit Committee~~ F&A will review and approve the appointment or removal of the ~~individual serving as chief a~~audit ~~e~~executive. The CEO may appoint an individual to serve as chief audit executive on an interim basis.
- The ~~Finance and Audit~~ F&A Committee will monitor, in consultation with the ~~individual serving as c~~Chief ~~a~~Audit ~~e~~Executive, the significant findings of internal audit reports and the status of the implementation of management's action plans in response to such audit findings.
- The ~~Finance and Audit~~ F&A Committee will meet at least twice per year with the ~~individual serving as c~~Chief ~~a~~Audit ~~e~~Executive independent of other LIPA staff and will report any significant internal audit findings to the Board in a timely manner.

Department of Public Service **Management and Operations Audits**

The LIPA Reform Act (the "Act") directs the Department of Public Service ("DPS") to conduct comprehensive management and operations audits of LIPA and PSEG Long Island at least once every five years.

- Upon completion of an audit, the Department of Public Service DPS must deliver to the LIPA Board a report of its findings together with any recommendations for improvements. Absent a preliminary finding of inconsistency made by the Board, under the procedures set forth in the Act, the audit report's recommendations become final 30 days after receipt by the Board.
- Ninety days after the audit report's finalization, LIPA's Chief Executive Officer, in coordination with PSEG Long Island, shall submit an implementation plan to the Oversight and Clean Energy Committee of the Board to effectuate the audit's recommendations.
- LIPA's Chief Executive Officer, together with PSEG Long Island, will submit an annual

report to the Oversight and Clean Energy Committee of the Board and the ~~Department of Public Service~~ DPS ~~of~~ on the status of the implementation plan. That annual report will include a summary of the activities completed to date and any revisions to completion targets. The annual report will be reviewed by Internal Audit for completeness prior to submission. The Oversight and Clean Energy Committee will report significant matters to the Board.

- Internal Audit will review the effectiveness of the implementation plan in addressing each —audit recommendation after the completion of the plan for that recommendation.

The ~~Finance and Audit~~ F&A Committee will annually review the provisions of the Board Policy on Audit Relationships.



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Monitored by:	Finance and Audit Committee
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- The Board, on the recommendation of the Finance and Audit Committee (the “F&A Committee”), will select an independent certified public accounting firm to conduct annual audits of LIPA. The Board will make the choice of the external auditor based on advice from staff and others as it deems necessary to exercise prudent, independent judgment.
- The F&A Committee will annually review the audit services to be performed by such independent auditor, including the scope, fees, and terms thereof and all relationships between the auditor and LIPA.
- The F&A Committee will meet each year with the external auditors at the commencement of the annual audit and again after the audit is complete. The meeting at the completion of the audit will be independent of staff. The F&A Committee members will report any significant findings to the Board in a timely manner.

Internal Auditors

- LIPA’s internal auditors 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, and the Definition of Internal Auditing.
- Internal auditors shall conduct audits as identified in the annual audit plan as well as special projects requested by the F&A Committee, or management.
- The annual audit plan will include audits of LIPA and its service providers, and the internal auditors shall have unlimited access to all activities, records, property, and personnel of LIPA and its service providers in the performance of their duties.

- The F&A Committee will annually review and provide guidance on the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit department and will confirm the independence of the internal auditors. The chief audit executive shall administratively report to the Chief Executive Officer.
- The F&A will review and approve the appointment or removal of the chief audit executive. The CEO may appoint an individual to serve as chief audit executive on an interim basis.
- The F&A Committee will monitor, in consultation with the chief audit executive, the significant findings of internal audit reports and the status of the implementation of management's action plans in response to such audit findings.
- The F&A 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.

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- Ninety days after the audit report's finalization, LIPA's Chief Executive Officer, in coordination with PSEG Long Island, shall submit an implementation plan to the Oversight and Clean Energy Committee of the Board to effectuate the audit's recommendations.
- LIPA's Chief Executive Officer, together with PSEG Long Island, will submit an annual report to the Oversight and Clean Energy Committee of the Board and the DPS on the status of the implementation plan. That annual report will include a summary of the activities completed to date and any revisions to completion targets. The annual report will be reviewed by Internal Audit for completeness prior to submission. The Oversight and Clean Energy Committee will report significant matters to the Board.
- Internal Audit will review the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the plan for that recommendation.

The F&A Committee will annually review the provisions of the Board Policy on Audit Relationships.