



# INTERNAL AUDIT UPDATE

December 13, 2023

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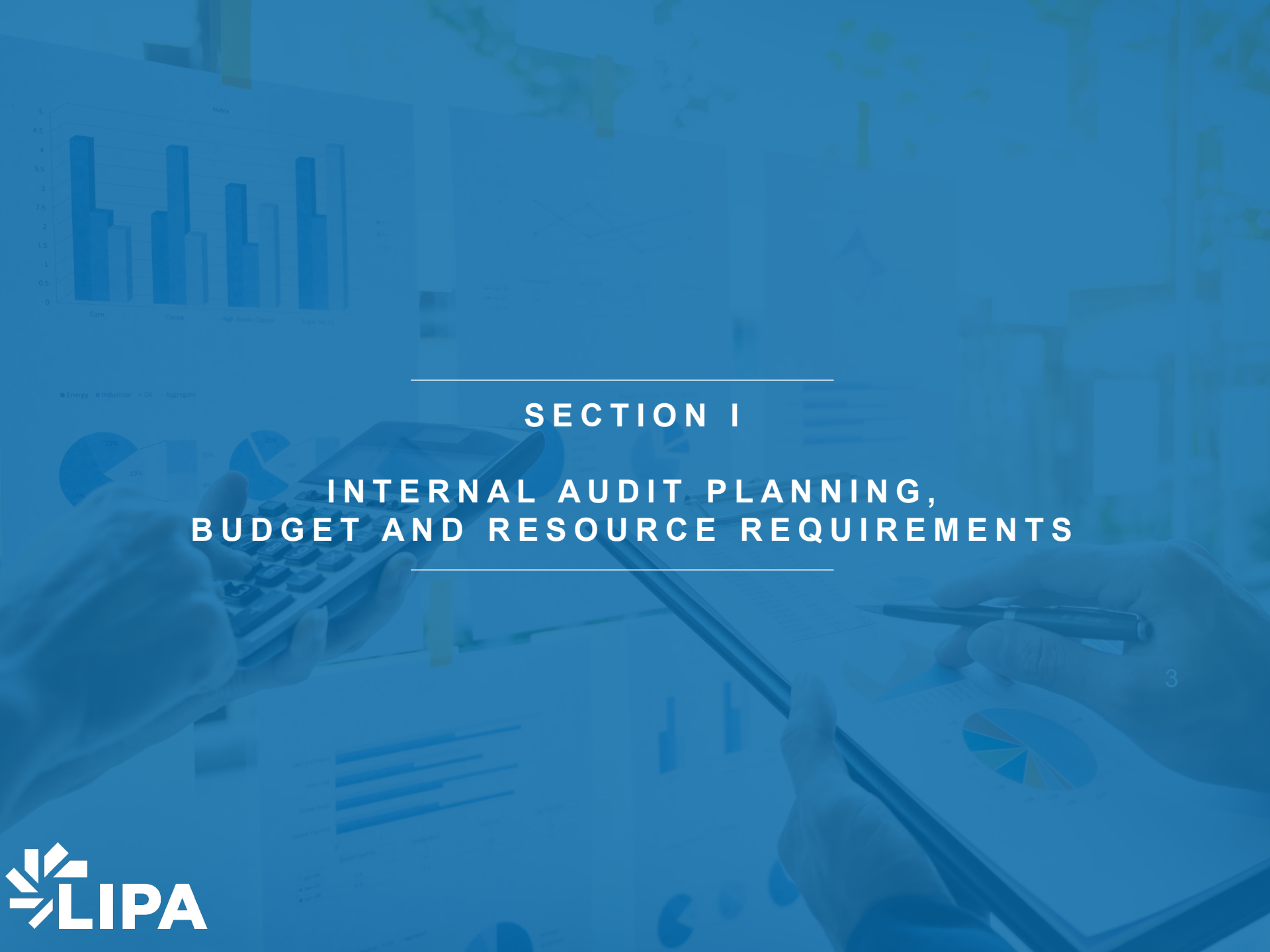
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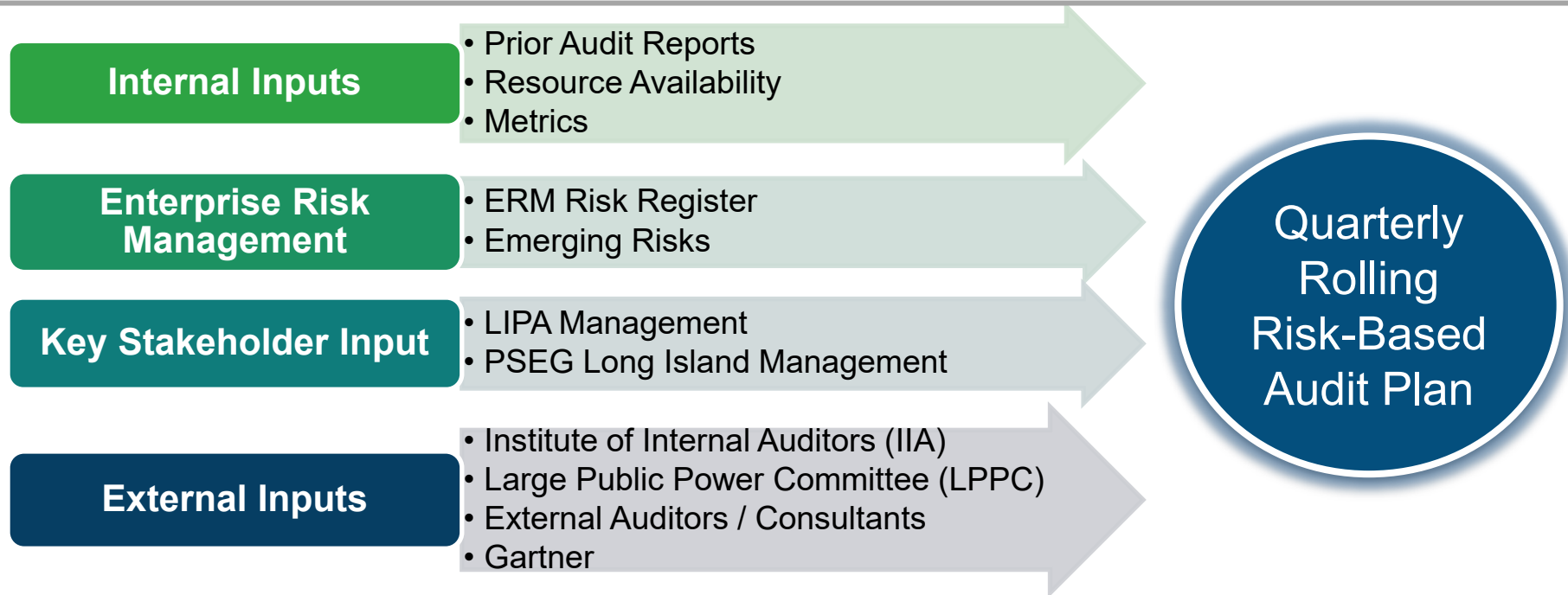
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## SECTION I

# INTERNAL AUDIT PLANNING, BUDGET AND RESOURCE REQUIREMENTS

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# AUDIT RISK-BASED PLANNING PROCESS



To continue the advancement of the Internal Audit function towards best-in-class practices, we are proposing implementing a Risk-Based Quarterly Rolling Audit Plan, in lieu of maintaining an Annual Plan. A Quarterly Rolling Plan involves continuously updating and adjusting the audit plan, as needed, every quarter with a new set of audits identified based on changing priorities, risks and business needs. At each quarter end, an additional quarter will be added to the plan providing continuous visibility to planned audits for four (4) future quarters.

(See page 8 to illustrate)

**Formal approval for future quarterly audit plans will be sought at a Finance and Audit Committee meeting scheduled adjacent to a quarter end. (i.e., December (Q4), March (Q1), and June (Q2), and September (Q3), meetings, respectively)**

A risk-based Quarterly Rolling Audit Plan reflects what should be audited now and helps an internal audit activity remain both relevant, valuable and more responsive to emerging risks and issues while ensuring key areas are audited periodically over time.

# PROPOSED AUDIT PLAN AND SCOPE

Entity	Proposed Audit	Proposed Scope
PSEG Long Island	Locate and Mark	Ensure the adequacy and effectiveness of internal controls including monitoring of activities, timeliness of responses, accuracy of markings, assignment of activities, cost allocations among other utilities, and compliance with New York State regulations.
PSEG Long Island	Storm Invoicing	Evaluate the adequacy and effectiveness of internal controls to ensure the completeness, accuracy and timeliness of storm invoicing, including but not limited to a review of crew and vehicle requirements and usage.
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 Contributions in Aid of Construction (CIAC) charges (i.e. relocation of facilities, etc.).
PSEG Long Island	Recruitment	Evaluate the adequacy and effectiveness of the internal controls including review of existing recruitment policies and procedures to ensure alignment with organizational goals, legal requirements, and industry best practices.
PSEG Long Island	Asset Inspections	Evaluate the adequacy and effectiveness of the internal controls including ensuring adherence to relevant laws, regulations and industry standards; prioritization of safety measures for both the employees and the public; assessment of the condition and integrity of assets to ensure they meet performance standards; the utilization of allocated resources are utilized efficiently; and the accuracy and completeness of inspections data and records.
PSEG Long Island	Capital Project Outreach to External Stakeholders	Evaluate the adequacy and effectiveness of the internal controls ensuring appropriate initiation, planning, and execution of outreach to external stakeholders and performance of stated goals and objectives. This review will also include a review of the External Affairs Handbook to ensure that it is updated and compliance with industry standards.
PSEG Long Island	Workforce Management - T&D	Evaluate the adequacy and effectiveness of internal controls including an evaluation of timesheet review and approval, and compliance with Policy and applicable contracts (Union) and/or regulations. This evaluation would include a review of overtime hours to ensure proper approvals are obtained, efficiency of usage, and rationale is appropriate and properly documented.
<b>Proposed Audit Assist Projects</b>		
PSEG Long Island	Rate Implementation and Customer Billing	Assist the LIPA Rates team with a review and development of a standardized and systematic framework for customer rate implementation and the related customer billing processes (including new rates, changes to existing rates, terms and conditions changes, or changes to the tariff). The scope of the project will include: assessment of existing rate implementation practices; development of a formal process for implementing rates and charges used to compute customer bills; and development and deployment of training materials related to the desired future state of the bill calculation process.
LIPA	Standardization of Metric Development and IV&V Review	Assist LIPA's Project Management team with reviewing and developing a consistent, systematic process for LIPA Management to conduct metric development and independent verification and validation (IV&V) of PSEG Long Island Performance Metrics.
LIPA	Power Supply Settlement Process Review	Document the power supply settlement processes including monitoring and/or approvals for invoicing, payments, and reconciliation processes and procedures.
PSEG Long Island	Safety Assessment Project	Assist the Transmission and Distribution team on a Safety Assessment Project that will include, at a minimum, an evaluation to ensure effective controls are in place to properly monitor, mitigate and minimize incidents effecting the OSHA days away rate, OSHA Recordable Incidence Rate, and Serious Injury rate.
PSEG Long Island	IT System Separations Cost Analysis	Assist LIPA's DoIT team with an ongoing review of costs associated with IT System Separations.
LIPA	Treasury Management System Implementation (Kyriba) - IT General Controls	Performance of an information technology general control review of the Treasury Management System implementation (Kyriba). This will include a review of, but not limited to, segregation of duties, access, change management, physical security, development lifecycle, and back-up and recovery controls.



# INTERNAL AUDIT BUDGET AND RESOURCES

Proposed 2024 Budget	2024 Budget	2023 Budget	Comments
Salaries	\$605,000	\$665,500	2024 – Includes Five (5) Full-time staff, including one position that was recently filled in December 2023.
Internal Audit Consulting	\$1,200,000	\$1,200,000	Co-Sourced Internal Audit Activities – inclusion of Subject Matter Experts
Training / Other Costs	\$50,000	\$50,000	Includes professional development training, subscriptions, and business travel
<b>Total</b>	<b>\$1,855,000</b>	<b>\$1,915,500</b>	

## Resource Allocations

Current Internal Audit resource allocation is 5,900 hours and an additional 1,500 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.



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## SECTION II

# INTERNAL AUDIT ACTIVITIES

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# AUDIT PLAN AND ACTIVITIES STATUS

Entity	Audit / Review Name	2023				2024				Risk Rating	Start Date	Report Date	Comments
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
PSEG Long Island	Vendor Contracts Review									Moderate	6/30/2022	1/23/2023	Reported as Some Improvement needed, which equates to the new rating of Moderate. Fieldwork completed in October 2022. Delay due to on-going discussions related to the development of agreed upon Management Action Plans.
PSEG Long Island	Vegetation Management									Moderate	1/13/2023	5/5/2023	Timing On-Target
PSEG Long Island	Third Party Risk Management									High	10/7/2022	6/9/2023	Fieldwork completed in January 2023. Delay due to on-going discussions related to the development of agreed upon Management Action Plans. Extensive delay discussed at F&A Committee Meetings.
PSEG Long Island	SAP Property Records - Follow-Up Audit									Low	2/7/2023	10/31/2023	Previously named "SAP Cost Element Tagging Audit". Delay due to excessive time receiving requested documentation from PSEG Long Island Management. Delays discussed at F&A Committee Meeting.
LIPA & UDSA	Select Internal Control review (LIPA)										1/2/2023	N/A	Ongoing review. Recommendations and enhancements to controls are provided as work is conducted.
PSEG Long Island	Marketing and Advertising										7/19/2023		Planned final report date 12/29/23.
PSEG Long Island	Locate and Mark										TBD		Planned Completion date will be stated upon commencement of audit.
PSEG Long Island	*Storm Invoicing										TBD		Planned Completion date will be stated upon commencement of audit.
PSEG Long Island	*Non-Product Billing										TBD		Planned Completion date will be stated upon commencement of audit.
PSEG Long Island	*Recruitment										TBD		Planned Completion date will be stated upon commencement of audit.
PSEG Long Island	*Asset Inspections										TBD		Planned Completion date will be stated upon commencement of audit.
PSEG Long Island	*Capital Project Outreach to External Stakeholders										TBD		Planned Completion date will be stated upon commencement of audit.
PSEG Long Island	*Workforce Management - T&D										TBD		Planned Completion date will be stated upon commencement of audit.
<b>Proposed Audit Advisory and Assist Projects</b>													
PSEG Long Island	Arrears Calculation Validation										8/1/2022	N/A	
PSEG Long Island	*Rate Implementation and Customer Billing										9/8/2023	9/30/2024	This project will include 3 Phases (1.Gap Analysis, 2.Management Action Plan and Guideline Development and 3. Testing guideline implementation). Initial phase one report was issued November 2023.
LIPA	*Standardization of Metric Development and IV&V Processes										11/22/2023	1/31/2024	Project has now commenced since the November F&A Committee. While this project is not deemed an audit, initial gap analysis is projected to be issued in January 2024.
LIPA	*Power Supply Settlement Process Review										9/14/2023	1/31/2024	
PSEG Long Island	*Safety Assessment Project (accident reviews and mitigation program)											TBD	Planned Completion date will be stated upon commencement of the project.
PSEG Long Island	*IT System Separations Cost Analysis											N/A	On-Going review
LIPA	*Treasury Management System Implementation (Kyriba) - IT General Controls											TBD	Planned Completion date will be stated upon commencement of the project.

Complete Reporting In Process Planning Delayed Not Started



# OPEN MANAGEMENT ACTION PLANS

Audit Name	Total # of Open Observations	# of Open High-Risk Observations	Business Unit	Action Plan Status
PSEG Long Island Vegetation Management (Audit Issued 2023)	8	*1	PSEG Long Island	On Target
PSEG Long Island Third Party Risk Management (Audit Issued 2023)	10	*3	PSEG Long Island	On Target
SAP Property Records Follow-Up	1	0	PSEG Long Island	On Target

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

**One audit observation was closed since the November 15, 2023, F&A Committee meeting.**

**All Management Action plan items are independently verified and validated by Internal Audit prior to closure.**



## APPENDIX A

# AUDIT & ACTION PLAN STATUS DESCRIPTIONS

# APPENDIX A

Audit Observation Ranking	Description
<b>Low risk</b>	Generally, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives will be met. The observations primarily represent opportunities for improvement or issues with low impact on business activities or the ability to effectively provide our customers with clean, reliable, and affordable energy. Routine Management attention is warranted.
<b>Moderate risk</b>	Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives will be met; however, the overall effects on business activities or the ability to effectively provide our customers with clean, reliable, and affordable energy are deemed to be less damaging than observations rated as high risk. Timely Management attention is warranted.
<b>High risk</b>	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives will be met. These observations may have a significant adverse impact on business activities or the ability to effectively provide our customers with clean, reliable, and affordable energy. Immediate Management attention is required.

**Note: Previous Audit Report Opinions have been Eliminated starting January 1, 2023**



## **FOR CONSIDERATION**

December 13, 2024

**TO:** The Board of Trustees

**FROM:** Catherine Widmark

**REQUEST:** Approval of the 2024 Quarterly Rolling Internal Audit Plan, 2024 Internal Audit Budget, and Resource Requirements

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### **Requested Action**

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to approve the 2024 Quarterly Rolling Internal Audit Plan (the “Plan”), 2024 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 2024 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 the following:

- seven (7) audits of PSEG Long Island;
- one (1) audit review of key controls for LIPA; and
- six (6) audit assist projects (three (3) of LIPA and three (3) 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 2024 QUARTERLY ROLLING INTERNAL  
AUDIT PLAN, 2024 INTERNAL AUDIT BUDGET, AND RESOURCE  
REQUIREMENTS**

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**RESOLVED**, that consistent with the attached memorandum, the Board Trustees of the Long Island Power Authority hereby approves the 2024 Quarterly Rolling Internal Audit Plan, 2024 Internal Audit Budget, and Resource Requirements.

Dated: December 13, 2023