



Internal Audit Update

Finance and Audit Committee Meeting

June 26, 2024

Presented by: Cathy Widmark, Director of Audit Services

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Discussion Topics

 2024 Quarterly Rolling Audit Plan and Activities Status

 Open Management Action Plans

 Appendix A: Audit and Action Plan Status Descriptions

2024 Quarterly Rolling Audit Plan and Activities Status

Entity	Audit / Review Name	2024				2025		**Audit Impact Rating	Start Date	Report Date
		Q1	Q2	Q3	Q4	Q1	Q2			
LIPA & UDSA	Select Internal Control review								1/2/2024	N/A
PSEG Long Island	Marketing and Advertising							High	7/19/2023	2/26/2024
PSEG Long Island	*Locate and Mark - Draft Report								1/2/2024	TBD
LIPA	Procure to Pay								3/26/2024	TBD
PSEG Long Island	Recruitment and Hiring Practices								5/7/2024	TBD
PSEG Long Island	Asset Inspections								TBD	TBD
PSEG Long Island	Policy and Procedure Documentation Review								TBD	TBD
PSEG Long Island	Ethics and Compliance Program								TBD	TBD
PSEG Long Island	Clean Energy Program								TBD	TBD
PSEG Long Island	Capital Project Outreach to External Stakeholders								TBD	TBD
PSEG Long Island	Household Assistance Program								TBD	TBD
PSEG Long Island	*IT System Separations (In collaboration with PSEG LI Internal Audit)								TBD	TBD
Proposed Audit Advisory and Assist Projects										
PSEG Long Island	Rate Implementation and Customer Billing								9/8/2023	TBD
LIPA	*Power Supply Settlement Process Review							N/A	9/14/2023	6/4/2024
LIPA	Treasury and Insurance Process Review								3/4/2024	TBD
PSEG Long Island	*Safety Assessment Project								1/2/2024	TBD
LIPA	Treasury Management System Implementation (Kyriba)								3/4/2024	N/A
PSEG Long Island	*Workforce Management Productivity								TBD	TBD

*Notes: Status change or Audit added since the May 2024 Finance and Audit Committee Meeting.
See the Appendix for scope descriptions.
** See Page 7 for Audit Impact Rating Descriptions

Status Legend					
Complete	Reporting	In Process	Planning	Not Started	Delayed

Open Management Action Plan

Audit Name	Total # of Open Observations	# of Open High-Risk Observations	Business Unit	Action Plan Status
PSEG Long Island Third Party Risk Management (Audit Issued 2023)	10	*3	PSEG Long Island	On Target
Marketing and Advertising	5	*4	PSEG Long Island	On Target

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

One observation was closed since the May 2024 Finance and Audit Committee meeting.
All Management Action plan items are independently verified and validated by LIPA Internal Audit prior to closure.

Questions?

Cathy Widmark
Director of Audit Services

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Appendix A: Proposed Audit Plan Scope Audit & Action Plan Status Descriptions

Proposed Audit Plan and Scope

Entity	Proposed Audit Name	Proposed Objectives (subject to revisions upon commencement of planning activities)
LIPA & UDSA	Select Internal Control review	Evaluate the adequacy and effectiveness of select key internal controls for LIPA and UDSA's Business Processes. Review of LIPA and UDSA Internal Control processes to be completed over 3-year planning cycle.
PSEG Long Island	Marketing and Advertising	Evaluate the adequacy and effectiveness of internal controls to ensure the accuracy of the Marketing and Advertising processes including monitoring, approvals, budget to forecast processes, disclosures and appropriateness of market segmentation.
PSEG Long Island	Locate and Mark - Draft Report	Ensure the adequacy and effectiveness of internal controls surrounding the locate and mark processes 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.
LIPA	Procure to Pay	Evaluate the adequacy and effectiveness of internal controls within the procure-to-pay process to mitigate risks of fraud, errors, and non-compliance. Ensure compliance with procurement policies, procedures and regulations throughout the procure-to-pay process. Assess the effectiveness of vendor management, including vendor selection, including competitive bidding, conflicts of interest, and award processes. Evaluate cost control initiatives, vendor performance evaluation and contract management, purchasing, change order approval, receipt of goods or services, purchase order and invoice review and approvals, adherence to budgets, and payment.
PSEG Long Island	Recruitment and Hiring Practices	Evaluate the adequacy and effectiveness of the internal controls including: compliance with applicable laws, regulations, and company policies throughout the recruiting and hiring process, including equal employment opportunity (EEO), anti-discrimination, and data privacy laws; efficiency and effectiveness of the recruitment process from job requisition to candidate selection; consistency and fairness of candidate screening and selection procedures to ensure alignment with job requirements, competency frameworks, and diversity initiatives; process for conducting background checks, employment verifications, and reference checks; the effectiveness of the offer management and onboarding processes to ensure timely and accurate communication, compliance with employment contracts, and smooth transition for new hires; monitoring and effectiveness of recruitment metrics and KPIs (i.e. time to fill, cost per hire, quality to hire, etc.); and relationships with external recruitment vendors and agencies to ensure compliance with contractual agreements, ethical standards and fair business practices.
PSEG Long Island	Asset Inspections	Evaluate the adequacy and effectiveness of the internal controls surrounding the asset inspection processes 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.

Proposed Audit Plan and Scope (continued)

Entity	Proposed Audit Name	Proposed Objectives (subject to revisions upon commencement of planning activities)
PSEG Long Island	Policy and Procedure Documentation Review	Ensure the adequacy and effectiveness of the internal controls to ensure: procedures are in place in PSEG Long Island's core business functions to uniformly develop, maintain and periodically review policies and procedures to ensure compliance with relevant laws, regulations and industry standards; achievement of objectives and organizational goals; clarity of roles and responsibilities to ensure accountability at all levels; and communication and dissemination to relevant stakeholders, ensuring understanding and compliance.
PSEG Long Island	Ethics and Compliance Program	Evaluate the comprehensiveness, clarity, and accessibility of ethics and compliance policies and procedures to ensure alignment with industry standards, regulatory requirements, and organizational values; effectiveness of training programs and communication initiatives aimed at educating employees about ethical standards, compliance requirements, and reporting mechanisms; efficiency and responsiveness of the whistleblower hotline or reporting mechanisms for employees to report unethical behavior or compliance violations confidentially and without fear of retaliation; effectiveness of processes and controls in place to identify, disclose, and manage conflicts of interest among employees, contractors, and stakeholders; procedures for vetting and monitoring vendors to ensure compliance with ethical standards and applicable laws and regulations; commitment of senior leadership to ethical behavior and compliance, as well as the effectiveness of mechanisms for promoting a culture of integrity and accountability throughout the organization.
PSEG Long Island	Clean Energy Program	Evaluate the adequacy and effectiveness of internal controls related to the Clean Energy Program including, but not limited to the following: adequacy of assumed allocations relative to the statewide Climate Leadership and Community Protection Act (CLCPA) goals and whether plans support achievement of the goals and targets; evaluate the role and scope of PSEG Long Island's Oversight and Clean Energy Committee on clean and renewable energy programs such as its activities, the content of meetings, how stakeholders are selected, and how stakeholder feedback is incorporated/responded to; review and evaluate recommendations made by the committee on demand reduction goals, beneficial electrification program goals, and renewable program goals, and evaluate PSEG Long Island's efforts in achieving program engagement directed towards low and moderate-income (LMI) customers.
PSEG Long Island	Capital Project Outreach to External Stakeholders	Evaluate the adequacy and effectiveness of project management processes used for Capital Projects 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	Household Assistance Program	Evaluate the adequacy and effectiveness of the internal controls related to the Household Assistance Program including, but not limited to the following: adequacy of end-to-end program management including document control, application approval and denial review; customer communication and records management; compliance with organizational policies, Tariff requirements, regulatory requirements, and industry standards; adequacy and completeness of advocacy, education and outreach training; evaluate the effectiveness and efficiency of the budgeting process and analyze budget variances to identify discrepancies between planned and actual performance; and evaluate the use of KPIs and performance against program goals.
PSEG Long Island	IT System Separations (In collaboration with PSEG LI Internal Audit)	PSEG Long Island and LIPA Internal Audit to work collaboratively with a third-party auditor to perform an audit of the IT System Separation Program for Bundle 1. The audit will be performed after the completion of the Bundle 1 implementation during the 2025 Audit Plan.

Proposed Audit Plan and Scope (continued)

Entity	Proposed Audit Assist and Advisory Project	Proposed Objectives (subject to revisions upon commencement of planning activities)
PSEG Long Island	Rate Implementation and Customer Billing	The project's overall objective is to review and develop 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	Power Supply Settlement Process Review	Document the power supply settlement processes including monitoring and/or approvals for invoicing, payments, and reconciliation processes and procedures.
LIPA	Treasury and Insurance Process Review	Document LIPA Management's treasury and insurance processes to ensure that treasury and insurance operations are conducted efficiently, securely and in compliance with applicable regulations and best practices. This review will include identifying, assessing and documenting risks and processes associated with activities such as liquidity risk, credit risk, market risk as well as insurance risks like underwriting risks and claims management.
PSEG Long Island	Safety Assessment Project	Evaluate remediation efforts implemented as a result of the K&A 2022 Safety Assessment review. This review will also 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.
LIPA	Treasury Management System Implementation (Kyriba)	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.
PSEG Long Island	Workforce Management Productivity	The review will assess PSEG Long Island's Overhead/Underground (OH/UG) work crews to measure productivity standards against established guidelines and to utility industry standards (i.e., IPSEC-A framework). The focus of this audit will include the management and oversight of work crew productivity, as well as standardization and centralization of planning, scheduling, execution, and material management as they relate to productivity. The audit will require onsite fieldwork across select yards.

Audit & Action Plan Status Descriptions

Audit Impact Rating	Description
Low	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. Route Management attention is warranted.
Moderate	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.
High	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.