



# Internal Audit Update

*Finance and Audit Committee Meeting*







**Presented by:** Cathy Widmark, *Director of Audit Services*

December 18, 2024



# Discussion Topics

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-  Internal Audit **Risk-Based Planning** Process
-  Internal Audit **Budget and Resource Allocation**
-  Proposed **2025** Internal Audit **Plan**
-  2024/2025 **Audit Plan** and **Activities** Status
-  **Open Management Action Plans**
-  **Appendix A: Proposed Audit Plan Detailed Scope**

# Internal Audit Planning, Budget and Resource Requirements



# Audit Risk-Based Planning Process



To continue the advancement of the Internal Audit function towards best-in-class practices, we are utilizing a Risk-Based Quarterly Rolling Audit 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.

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.

# Internal Audit Budget and Resources

Proposed 2025 Budget	2025 Budget	2024 Budget	Comments
Salaries	\$659K	\$605K	2025 – Includes Five (5) Full-time staff
Internal Audit Consulting	\$750K	\$1,200K	Co-Sourced Internal Audit Activities – inclusion of Subject Matter Experts.
Training / Other Costs	\$50K	\$50K	Includes professional development training, subscriptions, and business travel
<b>Total</b>	<b>\$1,459M</b>	<b>\$1,855M</b>	Represents an approximate <b>\$396K reduction from 2024</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 2,200 hours (reduction of 1,300 hours from 2024).

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



# Proposed 2025 Internal Audit Plan

# Proposed 2025 LIPA Internal Audit Plan – Short Scope Descriptions

## See Appendix A for complete scope

Entity Audited	Audit / Review Name	Proposed Scope (to be finalized during planning phase) See Appendix A for Long Scope Descriptions
LIPA and UDSA	<b>Select Internal Control Review</b>	Evaluate the adequacy and effectiveness of select key internal controls for LIPA and UDSA's Business Processes.
PSEG Long Island	<b>Storm Invoicing</b>	Evaluate the adequacy and effectiveness of the internal controls related to the Storm Invoicing process. This review will include, a review of direct labor charges (including overtime) inclusive of crew availability, schedules, direct material costs, outside services costs, storm card costs as applicable, and PSEG Long Island's management of storm resources inclusive of vendor oversight.
PSEG Long Island	<b>Asset Management – Outside Plant Assets</b>	Evaluate the adequacy and effectiveness of the internal controls related to the PSEG Long Island's Asset Management Program affiliated with Outside Plant (OSP) assets. The audit will include evaluating the effectiveness, efficiency and accuracy of the OSP asset Quality Assurance verification process, examination of the policies and procedures governing OSP asset validations, tagging processes and inventory records accuracy.
PSEG Long Island	<b>Clean Energy Program</b>	Evaluate the adequacy and effectiveness of internal controls related to the Clean Energy and Energy Efficiency Programs.
PSEG Long Island	<b>Customer Credit and Collections</b>	Evaluate the adequacy and effectiveness of the internal controls related to customer credit and collection activities including compliance with applicable laws, regulations, and company policies, 16 NYCRR Part 11 (also known as Home Energy Fair Practices Act (HEFPA)) and the LIPA Tariff for Electric Service.
PSEG Long Island	<b>Fleet Asset Management</b>	Evaluate the adequacy and operating effectiveness of processes and controls related to fleet management ensuring compliance with Policies, procedures, regulatory requirements and strategic goals.
PSEG Long Island	<b>T&amp;D Operations – Line Reconductor Project Management</b>	Evaluate the adequacy and effectiveness of the internal controls, processes and compliance mechanisms related to the reconductoring of electrical power transmission and distribution lines, specifically related to records management, field validation performance and alignment with industry standards and expectations.
PSEG Long Island	<b>Rate Calculations</b>	Evaluate the adequacy and effectiveness of the internal controls and processes related to select rate calculations to ensure compliance with CM-F1-006 (Tariff Statement Revisions to LIPA Tariff for Electric Service), and the adequacy of internal controls surrounding sources of data and calculation methods utilized for Tariff Statements.
PSEG Long Island	<b>Contract Compliance review for Anti-Discrimination</b>	Evaluate the adequacy and effectiveness of internal controls implemented within the procurement process to mitigate risks of fraud, errors, and non-compliance with applicable laws, regulations and the OSA as it relates to Section 10.8 for vendors.

# 2024 / 2025 Audit Plan and Activities Status





# 2024 / 2025 LIPA Internal Audit Plan and Activities Status

Entity	Audit / Review Name	2024				2025 (Proposed)				Start Date	Report Date
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
LIPA and UDSA	Select Internal Control Review (2024)	Complete	Complete	Complete	Complete					1/2/2024	N/A
PSEG Long Island	Marketing and Advertising	Complete								7/19/2023	2/26/2024
PSEG Long Island	Locate and Mark-Out	Complete	Complete	Complete						1/2/2024	11/4/2024
LIPA	Procure to Pay	Complete	Complete	Complete						3/26/2024	11/5/2024
LIPA	Power Supply Settlement Process Review	Complete	Complete	Complete						9/14/2023	6/4/2024
LIPA	*Insurance Process Review		Complete	Complete	Complete					4/1/2024	12/3/2024
LIPA	*Treasury Process Review		Complete	Complete	Complete					4/1/2024	12/3/2024
LIPA	Treasury Management System Implementation (Kyriba)		Complete	Complete	Complete					4/1/2024	10/28/2024
LIPA	*Metric Performance Evaluation Standardization Review (IV&V)			Complete	Complete					8/29/2024	12/3/2024
PSEG Long Island	*Recruitment and Hiring Practices		In Process	In Process	In Process					5/7/2024	TBD
LIPA and UDSA	Select Internal Control Review (2025)					Not Started	Not Started	Not Started	Not Started	TBD	TBD
PSEG Long Island	*Storm Invoicing				In Process	In Process	In Process			10/28/2024	TBD
PSEG Long Island	*Asset Management – Outside Plant Assets				In Process	In Process	In Process			TBD	TBD
PSEG Long Island	*Clean Energy Program				In Process	In Process	In Process			TBD	TBD
PSEG Long Island	Customer Credit and Collections					Not Started	Not Started	Not Started		TBD	TBD
PSEG Long Island	Fleet Asset Management					Not Started	Not Started	Not Started		TBD	TBD
PSEG Long Island	T&D Operations – Line Reconductor Project Management					Not Started	Not Started	Not Started		TBD	TBD
PSEG Long Island	Rate Calculations					Not Started	Not Started	Not Started		TBD	TBD
PSEG Long Island	Contract Compliance for Anti-Discrimination					Not Started	Not Started	Not Started		TBD	TBD
<b>Audit Assist Projects 2024 / 2025</b>											
PSEG Long Island	Rate Implementation and Customer Billing	In Process	In Process	In Process	In Process	In Process				9/8/2023	TBD
PSEG Long Island	Safety Assessment Project	Complete	Complete	Complete						1/2/2024	10/16/2024
PSEG Long Island	Workforce Management Productivity			In Process	In Process	In Process				8/7/2024	N/A

\*Notes: Status change since the November 2024 F&A Committee Meeting.

Status Legend					
Complete	Reporting	In Process	Planning	Not Started	Delayed

# Open Management Action Plans

Audit / Review Name	Total # of Open Observations	Total # of Open High-Risk Observations	Entity	Action Plan Status
Treasury Management System Implementation (Kyriba) Review	2	2	LIPA	On Target
Locate and Markout	5	0	PSEG Long Island	On Target
Procure to Pay	11	2	LIPA	On Target
Insurance Process Review	7	0	LIPA	On Target
Metric Performance Evaluation Standardization Review (IV&V)	4	2	LIPA	On Target
<b>Total Open Observations</b>	<b>29</b>	<b>6</b>		

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

**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 2025 Internal Audit Plan Scope

# Proposed 2025 Audit Plan

Entity	Audit / Review Name	Proposed Scope (to be finalized during planning phase)
LIPA and UDSA	<b>Select Internal Control Review</b>	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	<b>Storm Invoicing</b>	Evaluate the adequacy and effectiveness of the internal controls related to the Storm Invoicing process. This will include a review of select invoices to determine whether PSEG Long Island invoiced storm costs are accurate and in compliance with the terms of the 2 <sup>nd</sup> A&R OSA, LIPA's Guidelines for Storm Invoice Review, FEMA requirements, applicable PSEG Long Island Emergency Response Implementation Procedures (ERIPs), and other prudent utility standards and best practices. This review will include, but may not be limited to, a review of direct labor charges (including overtime) inclusive of crew availability, schedules, direct material costs, outside services costs, storm card costs as applicable, and PSEG Long Island's management of storm resources inclusive of vendor oversight.
PSEG Long Island	<b>Asset Management – Outside Plant Assets</b>	Evaluate the adequacy and effectiveness of the internal controls related to the PSEG Long Island's Asset Management Program affiliated with Outside Plant (OSP) assets. The audit will include evaluating the effectiveness, efficiency and accuracy of the OSP asset Quality Assurance verification process, examination of the policies and procedures governing OSP asset validations, tagging processes and inventory records accuracy. During fieldwork, we will perform an independent review of OSP assets on a sample basis to validate the accuracy and completeness of inventory records on field surveys and EGIS and ensure that assets are correctly tagged in the field. This review will incorporate validation of the PSEG Long Island assets in the field against the field survey and to the EGIS system to ensure data accuracy. Validate that third-party equipment is accurately captured and recorded.
PSEG Long Island	<b>Clean Energy Program</b>	Evaluate the adequacy and effectiveness of internal controls related to the Clean Energy and Energy Efficiency Programs including, but not limited to the following assessments: clean energy program alignment to achieve the New York State Climate Leadership and Community Protection Act (CLCPA) goals and how PSEG Long Island communicates its progress and plans for achieving goals to stakeholders and the public; process to develop and prioritize proposals made as part of the Utility 2.0 and evaluate receptivity to suggestions made in the public comment period of the Utility 2.0 review; vendor management, including vendor selection and performance; oversight of program initiatives and allocated budgets to ensure program plans and initiatives are aligned with program expectations, including a review of budget changes against program initiatives to ensure program goals remain achievable and align with expectations; role and scope Oversight and Clean Energy Committee on clean and renewable energy programs; evaluate initiatives to achieve climate justice and assess how they ensure that the transition to a low-carbon economy results in beneficial outcomes for traditionally underserved communities; coordination with NYSERDA; and capabilities of PSEG Long Island's information systems for meeting clean energy policy objectives.



# Proposed 2025 Audit Plan continued

Entity	Audit / Review Name	Proposed Scope (to be finalized during planning phase)
PSEG Long Island	<b>Customer Credit and Collections</b>	Evaluate the adequacy and effectiveness of the internal controls related to customer credit and collection activities including compliance with applicable laws, regulations, and company policies, 16 NYCRR Part 11 (also known as Home Energy Fair Practices Act (HEFPA)) and the LIPA Tariff for Electric Service. The audit will also include, but not be limited to outbound collections, Deferred Payment Agreements (DPA), bankruptcy, Debt Next, collection agencies, write-offs and recoveries.
PSEG Long Island	<b>Fleet Asset Management</b>	Evaluate the adequacy and operating effectiveness of processes and controls related to fleet management, ensuring compliance with regulatory requirements and strategic goals. This evaluation will include an evaluation of fleet inventory accuracy and completeness; fleet condition assessments, including maintenance and vehicle replacements; related procurement processes; cost management, available incentives, and oversight of the transition to hybrid and electric vehicles; registration and tax implication of vehicle sales; safety management systems for reporting vehicle-related incidents; motor vehicle accident claims administration; and environmental inspection and safety processes related to fleet facilities.
PSEG Long Island	<b>T&amp;D Operations – Line Reconductor Project Management</b>	Evaluate the adequacy and effectiveness of the internal controls, processes and compliance mechanisms related to the reconductoring of electrical power transmission and distribution lines, specifically related to records management, field validation performance and alignment with industry standards and expectations. The review will also include an examination of project management, cost saving initiatives, and budget compliance.
PSEG Long Island	<b>Rate Calculations</b>	Evaluate the adequacy and effectiveness of the internal controls and processes related to select rate calculations to ensure the following: revisions to the Tariff are compliant with CM-F1-006 (Tariff Statement Revisions to LIPA Tariff for Electric Service). Assess the adequacy of internal controls surrounding sources of data and calculation methods utilized for Tariff Statements. Determine if processes are in place to ensure recommendations regarding Tariff updates from DPS are implemented and evaluate if technology is utilized efficiently and adequately documented to reference how rates are calculated. Perform testing to recalculate select rates to ensure accuracy.
PSEG Long Island	<b>Contract Compliance review for Anti-Discrimination</b>	Evaluate the adequacy and effectiveness of internal controls implemented within the procurement process to mitigate risks of fraud, errors, and non-compliance with applicable laws, regulations and the OSA as it relates to Section 10.8 for vendors. Ensure compliance with procurement policies, procedures and regulations.

## **FOR CONSIDERATION**

December 18, 2024

**TO:** The Finance and Audit Committee

**FROM:** Catherine Widmark

**REQUEST:** Approval of the 2025 Quarterly Rolling Internal Audit Plan, 2025 Internal Audit Budget, and Resource Requirements

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### **Requested Action**

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to approve the 2025 Quarterly Rolling Internal Audit Plan (the “Plan”), 2025 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 a relevant part: 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 outlined 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 2025 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 complete the Plan with input from key stakeholders and LIPA senior management.

The Plan includes the following:

- eight (8) audits of PSEG Long Island;
- one (1) audit review of key controls for LIPA and UDSA; and
- two (2) audit assist projects 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 2025 QUARTERLY ROLLING INTERNAL  
AUDIT PLAN, 2025 INTERNAL AUDIT BUDGET, AND RESOURCE  
REQUIREMENTS**

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**RESOLVED**, that consistent with the attached memorandum, the Finance and Audit Committee of the Board Trustees of the Long Island Power Authority hereby approves the 2025 Quarterly Rolling Internal Audit Plan, 2025 Internal Audit Budget, and Resource Requirements.

Dated: December 18, 2024