



# Internal Audit Update

*Finance and Audit Committee Meeting*

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

January 23, 2025



# Discussion Topics

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 2024/2025 Audit Plan and Activities Status

 Open Management Action Plans

 Appendix A: Proposed Audit Plan Detailed Scope

# 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       |            |             |
| <b>2024 Audits</b>                           |                                                                           |          |          |          |            |                 |          |          |          |            |             |
| 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 | Complete   |                 |          |          |          | 8/29/2024  | 12/3/2024   |
| PSEG Long Island                             | *Recruitment and Hiring Practices                                         |          | Complete | Complete | Complete   |                 |          |          |          | 5/7/2024   | 12/26/2024  |
| <b>2025 Audits</b>                           |                                                                           |          |          |          |            |                 |          |          |          |            |             |
| LIPA and UDSA                                | *Select Internal Control Review (2025)                                    |          |          |          |            | Planning        | Planning | Planning | Planning | TBD        | TBD         |
| PSEG Long Island                             | Storm Invoicing                                                           |          |          |          | In Process | Planning        | Planning |          |          | 10/28/2024 | TBD         |
| PSEG Long Island                             | Asset Management – Outside Plant Assets                                   |          |          |          | In Process | Planning        | Planning |          |          | 12/6/2024  | TBD         |
| PSEG Long Island                             | *Clean Energy Program                                                     |          |          |          |            | Planning        | Planning | Planning |          | 1/13/2025  | TBD         |
| PSEG Long Island                             | Customer Credit and Collections                                           |          |          |          |            | Planning        | Planning | Planning |          | TBD        | TBD         |
| PSEG Long Island                             | Fleet Asset Management                                                    |          |          |          |            | Planning        | Planning | Planning |          | TBD        | TBD         |
| PSEG Long Island                             | T&D Operations – Line Reconductor Project Management                      |          |          |          |            |                 | Planning | Planning | Planning | TBD        | TBD         |
| PSEG Long Island                             | Rate Calculations                                                         |          |          |          |            |                 |          | Planning | Planning | TBD        | TBD         |
| PSEG Long Island                             | Contract Compliance for Anti-Discrimination                               |          |          |          |            |                 |          | Planning | Planning | TBD        | TBD         |
| <b>Audit Assist Projects 2024 &amp; 2025</b> |                                                                           |          |          |          |            |                 |          |          |          |            |             |
| PSEG Long Island                             | Rate Implementation and Customer Billing                                  | Complete | Complete | Complete | Complete   | Complete        |          |          |          | 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                                        |          |          | Complete | Complete   | Complete        |          |          |          | 8/7/2024   | N/A         |
| LIPA and PSEG Long Island                    | Management and Operations Audit Implementation Plan Review and Validation |          |          |          |            | Planning        | Planning | Planning | Planning | TBD        | N/A         |

\*Note: Status change since the December 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                                          | 4                            | 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>28</b>                    | <b>6</b>                               |                  |                    |

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

**A total of One (1) Management Action plan closed since the December 2024 F&A 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

## 2025 Internal Audit Plan Scope

# 2025 Audit Plan Scope

| Entity           | Audit / Review Name                            | Audit 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. |



# 2025 Audit Plan Scope 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**

January 23, 2025

**TO:** The Finance and Audit Committee

**FROM:** Catherine Widmark

**REQUEST:** Recommendation for Approval of Revised Internal Audit Charter

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### **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 the Committee most recently adopted on February 15, 2023, 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:

- Immaterial differences throughout the document to align with the newly implemented Global Audit Standards (“Standards”) as defined by the Institute of Internal Auditors (IIA). The revisions include an update to the Internal Audit purpose and mandate.

### **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 February 15, 2023, 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. strengthens the Long Island Power Authority's (LIPA) ability to create, protect, and sustain value by providing the Board of Trustees ("the Board") and management with independent, risk-based, and objective assurance, advice, insight, and foresight. Internal Audit enhances the organization's:~~

- ~~• Successful achievement of its objectives.~~
- ~~• Governance, risk management, and control processes.~~
- ~~• Decision-making and oversight.~~
- ~~• Reputation and credibility with its stakeholders.~~
- ~~• Ability to serve the public interest.~~

~~Internal auditing is most effective when:~~

- ~~• It is performed by competent professionals in conformance with the Global Internal Audit Standards ("the Standards"), which are set in the public interest.~~
- ~~• The internal audit function is independently positioned with direct accountability to the Board.~~
- ~~• Internal auditors are free from undue influence and committed to making objective assessments.~~

**ROLE:**

~~The internal audit function is established by the Board. Board establishes the internal audit function. Board establishes the internal audit function and is overseen, and it and is overseen receives its mandate from the Finance and Audit Committee of the Board. The internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.~~

~~-This Charter defines the internal audit function's responsibilities. The internal audit activity will adhere to The Institute of Internal Auditors' International Professional Practices Framework (IPPF), which includes the Standards and Topical Requirements. The Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. The Institute of Internal Auditors' Global Guidance, referred to as Supplemental Guidance, will also be adhered to as applicable to guide operations.~~

**ETHICS AND 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, 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.~~

~~All internal auditors are required to conform to high ethical standards and professionalism as outlined in the Standards' Ethics and Professionalism domain. In addition, the internal audit activity will adhere to LIPA's Code of Conduct, other relevant policies and procedures, and the internal audit activity's standard operating procedures manual.~~

~~While internal auditors are responsible for their own conformance, the Director of Audit Services, serving as the Chief Audit Executive ("CAE"), is expected to support and promote conformance with the principles and standards in the Ethics and Professionalism domain by providing opportunities for training and guidance. The Director of Audit Services/CAE may choose to delegate certain specific responsibilities for managing conformance but retains accountability for the ethics and professionalism of the internal audit function.~~

## **INTERNAL AUDIT AUTHORITY:**

The internal audit activity, abiding by strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to 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/CAE will report on functional matters to the Finance and Audit Committee and administratively (i.e., day-to-day operations) to the Chief Executive Officer ("CEO").

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 Director of Audit Services/CAE on the internal audit activity's performance relative to its plan and other matters.
- Review and approve the appointment or removal of the Director of Audit Services/CAE.
- Delegate to the CEO the power to appoint an individual to serve as CAE on an interim basis.

- Make appropriate inquiries of management and the Director of Audit Services/CAE to determine whether there are scope or resource limitations.

As appropriate, the Director of Audit Services/CAE will communicate and interact directly with the Finance and Audit Committee members in at least two executive sessions annually and between Board meetings as necessary.

#### **INDEPENDENCE AND OBJECTIVITY:**

Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances. 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 the internal auditor's judgment.

The Director of Audit Services/CAE will confirm the organizational independence of the internal audit activity to the Finance and Audit Committee at least annually.

#### **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 and Advisory engagements include:

- Evaluating risk exposure relating to the achievement of the organization's mission and strategic objectives.
- 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 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 upon 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 the efficiency and effectiveness of an operation or process.

#### **INTERNAL AUDIT PLAN:**

At least annually, the Director of Audit Services/CAE will submit to the Finance and Audit Committee an internal audit plan for review and approval to senior management and the Finance and Audit Committee. The internal audit plan will include a work schedule, budget, and resource requirements for the next fiscal/calendar year. The Director of Audit Services/CAE 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 from senior management and the Finance and Audit Committee. As necessary, the Director of Audit Services/CAE will review and adjust the plan, 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 Director of Audit Services/CAE 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 the 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 Director of Audit Services/CAE will periodically report to the CEO and the Finance and Audit Committee on the internal audit activity's purpose, authority, responsibility, and 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 maintains a quality assurance and improvement program that covers all aspects of the internal audit activity. The program includes an evaluation of the internal audit activity's conformance with the Standards (including conformance with the Ethics and Professionalism domain) and Topical Requirements. The program also assesses the internal audit activity's efficiency and effectiveness and identifies improvement opportunities.

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

**Internal Audit Activity Charter**

Approved this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Director of Audit Services/ Chief Audit Executive

\_\_\_\_\_  
Chairman of the Finance & Audit Committee

\_\_\_\_\_  
Chief Executive Officer



**LONG ISLAND POWER AUTHORITY  
INTERNAL AUDIT CHARTER**

**INTRODUCTION:**

Internal Audit "strengthens the Long Island Power Authority's (LIPA) ability to create, protect, and sustain value by providing the Board of Trustees ("the Board") and management with independent, risk-based, and objective assurance, advice, insight, and foresight. Internal Audit enhances the organization's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by competent professionals in conformance with the Global Internal Audit Standards ("the Standards"), which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Board.
- Internal auditors are free from undue influence and committed to making objective assessments.

**ROLE:**

The Board establishes the internal audit function. The Board establishes the internal audit function and oversees it, and it receives its mandate from the Finance and Audit Committee of the Board. The internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.

This Charter defines the internal audit function's responsibilities. The internal audit activity will adhere to The Institute of Internal Auditors' International Professional Practices Framework (IPPF), which includes the Standards and Topical Requirements. The Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. The Institute of Internal Auditors' Global Guidance, referred to as Supplemental Guidance, will also be adhered to as applicable to guide operations.

**ETHICS AND PROFESSIONALISM:**

All internal auditors are required to conform to high ethical standards and professionalism as outlined in the Standards' Ethics and Professionalism domain. In addition, the internal audit activity will adhere to LIPA's Code of Conduct, other relevant policies and procedures, and the internal Audit activity's standard operating procedures manual.

While internal auditors are responsible for their own conformance, the Director of Audit Services, serving as the Chief Audit Executive (CAE), is expected to support and promote conformance with the principles and standards in the Ethics and Professionalism domain by providing

opportunities for training and guidance. The Director of Audit Services/CAE may delegate specific responsibilities for managing conformance but retains accountability for the ethics and professionalism of the internal audit function.

### **INTERNAL AUDIT AUTHORITY:**

The internal audit activity, abiding by strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to 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 unrestricted access to the Finance and Audit Committee.

### **ORGANIZATION:**

The Director of Audit Services/CAE will report on functional matters to the Finance and Audit Committee and administratively (i.e., day-to-day operations) to the Chief Executive Officer ("CEO").

The Finance and Audit Committee will:

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- Approve the risk-based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Director of Audit Services/CAE on the performance of the internal audit activity relative to its plan and other matters.
- Review and approve the appointment or removal of the Director of Audit Services/CAE.
- Delegate to the CEO the power to appoint an individual to serve as CAE on an interim basis.
- Make appropriate inquiries of management and the Director of Audit Services/CAE to determine whether there are scope or resource limitations.

As appropriate, the Director of Audit Services/CAE will communicate and interact directly with the Finance and Audit Committee members in at least two executive sessions annually and between Board meetings as necessary.

### **INDEPENDENCE AND OBJECTIVITY:**

Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances. 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 the internal auditor's judgment.

The Director of Audit Services/CAE will confirm the organizational independence of the internal audit activity to the Finance and Audit Committee at least annually.

## **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 and Advisory engagements include:

- Evaluating risk exposure relates to achieving the organization's mission and strategic objectives.
- 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 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 upon 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 the efficiency and effectiveness of an operation or process.

## **INTERNAL AUDIT PLAN:**

At least annually, the Director of Audit Services/CAE will submit an internal audit plan to the Finance and Audit Committee for review and approval by senior management and the Finance and Audit Committee. The internal audit plan will include a work schedule, budget, and resource requirements for the next fiscal/calendar year. The Director of Audit Services/CAE 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 to prioritize the audit universe using a risk-based methodology, including input from senior management and the Finance and Audit Committee. As necessary, the Director of Audit Services/CAE will review and adjust the plan, \ 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 Director of Audit Services/CAE 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 regarding 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 the 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 Director of Audit Services/CAE will periodically report to the CEO and the Finance and Audit Committee on the internal audit activity's purpose, authority, responsibility, and 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 maintains a quality assurance and improvement program that covers all aspects of the internal audit activity. The program includes an evaluation of the internal audit activity's conformance with the Standards (including conformance with the Ethics and Professionalism domain) and Topical Requirements. The program also assesses the internal audit activity's efficiency and effectiveness and identifies improvement opportunities.

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

**Internal Audit Activity Charter**

Approved this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Director of Audit Services/ Chief Audit Executive

\_\_\_\_\_  
Chairman of the Finance & Audit Committee

\_\_\_\_\_  
Chief Executive Officer

## **FOR CONSIDERATION**

January 23, 2025

**TO:** The Finance and Audit Committee

**FROM:** John Rhodes

**SUBJECT:** Consideration of Recommendation to Approve the Annual Report and Amendments to the Board Policy on Audit Relationships

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### **Requested Action**

The Finance and Audit Committee ("F&A Committee") of the Board of Trustees (the "Board") of the Long Island Power Authority ("LIPA") is requested to adopt a resolution recommending that the Board: (i) approve the annual report on the Board Policy on Audit Relationships (the "Policy"); (ii) find that LIPA has complied with the Policy; and (iii) approve certain amendments to the Policy, which resolution is attached hereto as "**Exhibit A**".

### **Board Policy on Audit Relationships**

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 2024, the F&A Committee met with KPMG to complete its annual 2023 annual audit. KPMG reported no significant findings as a result of its audit.

### *Internal Auditors*

- 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 December 2024, the F&A Committee reviewed and approved the audit plan, activities, staffing, budget, and organizational structure of the internal audit department.
- 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*

- As required by the LIPA Reform Act, DPS procured NorthStar Consulting Group to conduct the Management and Operations audit, which concluded on March 22, 2024 with the filing of a final report containing 80 individual recommendations in 15 areas of management, oversight, and operations. In April 2024, DPS briefed the Board on this final audit report and key recommendations.
- During the April 2024 Board meeting, the Board of Trustees directed the LIPA and PSEG Long Island staff to implement the audit report's recommendations in accordance with the timeframe specified under such audit.
- LIPA staff will provide an annual update on the status of the 2022 recommendations starting with the Board's December 2025 meeting.

### **Annual Review of the Policy**

The proposed changes to the Board Policy include minor stylistic changes. 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 RECOMMENDING APPROVAL OF THE ANNUAL REPORT AND AMENDMENTS TO THE LONG ISLAND POWER AUTHORITY BOARD POLICY ON AUDIT RELATIONSHIPS**

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**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.

**NOW, THEREFORE, BE IT RESOLVED**, that consistent with the accompanying memorandum, the F&A Committee hereby recommends that the Board find 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 F&A Committee hereby recommends the changes to the Policy that are reflected in **Exhibit "B"** are hereby approved.

Dated: January 23, 2025





|                          |                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Board Policy:</b>     | <b>Audit Relationships</b>                                                                                                                                                                                                                                                                                                                                               |
| <b>Policy Type:</b>      | <b>Governance Process</b>                                                                                                                                                                                                                                                                                                                                                |
| <b>Monitored by:</b>     | <b>Finance and Audit Committee</b>                                                                                                                                                                                                                                                                                                                                       |
| <b>Board Resolution:</b> | <b>#1355, approved March 29, 2017</b><br><b>#1410, amended March 29, 2018</b><br><b>#1420, amended July 25, 2018</b><br><b>#1462, amended January 23, 2019</b><br><b>#1528, amended, May 20, 2020</b><br><b>#1632, amended, May 19, 2021</b><br><b>#1725, amended, May 18, 2022</b><br><b>#1800, amended, June 28, 2023</b><br><b>#[xxxx], amended, January 23, 2025</b> |

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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:

#### **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 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 Global Internal Audit Standards \(“the Standards”\)](#), [International Standards for the Professional Practice of Internal Auditing](#), and [the Definition of Internal Auditing Topical Requirements](#).
- 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 Committee 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.

### **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 DPS must deliver to the 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 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.



|                          |                                                                                                                                                                                                                                                                                                                         |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Board Policy:</b>     | <b>Audit Relationships</b>                                                                                                                                                                                                                                                                                              |
| <b>Policy Type:</b>      | <b>Governance Process</b>                                                                                                                                                                                                                                                                                               |
| <b>Monitored by:</b>     | <b>Finance and Audit Committee</b>                                                                                                                                                                                                                                                                                      |
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