



**FINANCE COMMITTEE MEETING via WEBEX
LANSING BOARD OF WATER AND LIGHT BOARD OF COMMISSIONERS
AGENDA**

January 12, 2021

6:00 P.M. – 1201 S. Washington Ave., Lansing, MI 48910

The BWL full meeting packet and public notice/agenda is located on the official web site at <https://www.lbw.com/about-bwl/governance>.

Due to public safety concerns resulting from the COVID-19 Pandemic, this meeting will be conducted via WebEx Conferencing and all Board Members will participate virtually. Instructional options to be in attendance are as follows:

1. Event address:

<https://lbwlevents.webex.com/lbwlevents/onstage/g.php?MTID=ec2515cbd377187c68417cca1db6b6365>

Event number: 132 470 7852

Event Password: Wb3epfSZC85

2. Audio conference: United States Toll +1-408-418-9388


Access code: 132 470 7852

Call to Order

Roll Call

Public Comment

Public Comment (PC) can be made by choice of:

- Raising your hand by clicking on the hand icon button  in the **Participants** panel
- Submitting written comments to mdenise.griffin@lbwl.com (By the End of Public Comment)
- Submitting written comments to 1201 S. Washington Ave., Lansing, MI 48910

1. Finance Committee Meeting Minutes of November 10, 2020TAB 1

2. TABLED ITEM:
Internal Audit Charter

 a. Current Internal Audit CharterTAB 2

 b. Proposed Internal Audit CharterTAB 3

 c. Internal Audit Charter ResolutionTAB 4

3. November YTD Financial SummaryTAB 5

4. Bi-Annual Internal Audit Management Response Report OutTAB 6

5. Internal Control Program OverviewTAB 7

6. Internal Audit Status ReportTAB 8

Other

Adjourn

In compliance with the order from the Director of the Michigan Department of Health and Human Services and the order from the Ingham County Health Department, in an effort to protect the health and safety of the public, to mitigate the spread of COVID-19 and to provide essential protections to vulnerable Michiganders and this State’s health care system and other critical infrastructure, it is crucial that all Michiganders take steps to limit in person contact, particularly in the context of large groups. Therefore, the above meeting will be conducted via audio/video conference in accordance with the Open Meetings Act, as amended by Public Act 228 of 2020 effective on October 16, 2020. Members of the public wishing to participate in the meeting may do so by logging into or calling into the meeting using the website or phone number and the meeting ID provided above.

Persons with disabilities who need an accommodation to fully participate in this meeting should contact the Office of the BWL Corporate Secretary at (517) 702-6033 or mdenise.griffin@lbwl.com, or utilize TTY by dialing 7-1-1. A 24-hour notice may be needed for certain accommodations. An attempt will be made to grant all reasonable accommodation requests.

**A quorum of the Board of Commissioners may be in attendance. Actions and Motions will be considered from the Finance Committee Members only.*

FINANCE COMMITTEE
Meeting Minutes
November 10, 2020

Due to public safety concerns resulting from the COVID-19 Pandemic, the Finance Committee meeting for the Lansing Board of Water and Light (BWL) was conducted via WebEx Conferencing in Lansing, MI on Tuesday, November 10, 2020.

Event Address for Attendees:

<https://lbwlevents.webex.com/lbwlevents/onstage/g.php?MTID=ecf5a05123f095d6c15f9035f7910c130>

Event Number for Attendees: 132 548 8521 Event password: B22NmgmSkd3

Audio conference: United States Toll +1-408-418-9388 Access code: 132 548 8521

Finance Committee Chair David Lenz, called the November 10, 2020, 6:00 P.M. Finance Committee meeting to order at 6:56 p.m.

Corporate Secretary Griffin took the roll call to acknowledge attendance.

The following Commissioners were present via audio/video:

David Lenz remotely, Lansing, MI (Member)	Beth Graham remotely, Lansing, MI (Member)
David Price remotely, Lansing, MI (Member)	Ken Ross remotely, Florida (Member)
Stuart Goodrich remotely, Holt, MI	Douglas Jester remotely, East Lansing, MI
Deshon Leek remotely, Lansing, MI	Larry Merrill remotely, Delta Township, MI
Tracy Thomas remotely, Lansing, MI	Sandra Zerkle remotely, Lansing, MI

Absent: None.

The Corporate Secretary declared a quorum.

Public Comments

None.

Approval of Minutes

Motion by Commissioner Price, **Seconded** by Commissioner Graham, to approve the Finance Committee meeting minutes of September 8, 2020.

Motion Carried by the following Roll Call Vote:

Yeas: Commissioners Lenz, Graham, Price, and Ross

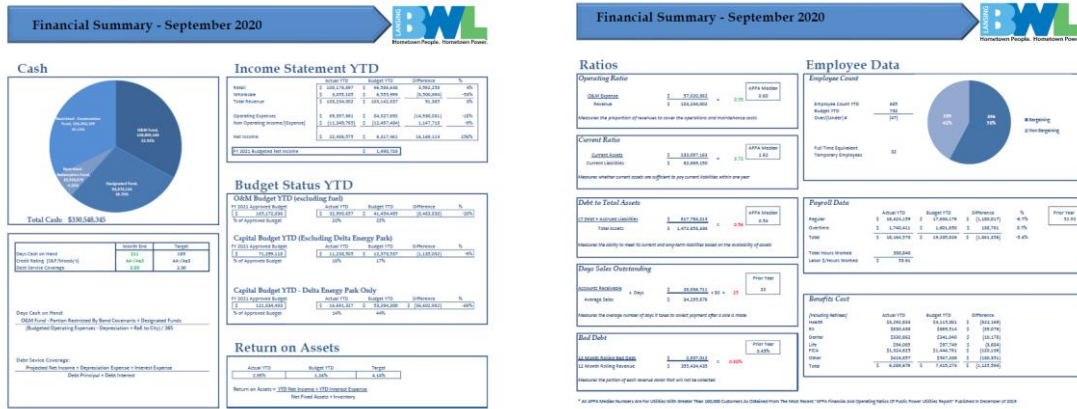
Nays: None

Tabled Items from July 21, 2020: - REMAINED ON THE TABLE

1) Current Internal Audit Charter, 2) Proposed Internal Audit Charter, 3) Resolution

September YTD Financial Summary

CFO Heather Shawa gave a review of the September 2020 YTD Financial Summary.



Chief Financial Officer Heather Shawa reported: Total cash increased about \$2M from August. Days Cash on Hand increased 15 days from August’s 196, ending the month at 211. The increase can be attributed to the cash flow items above plus an \$11.3M Delta Energy Park (DEP) and system improvement bond proceed reimbursement from previous month’s capital spend. September net income was \$6.8M. Net income is beating budget primarily due to under budget department spend (which is common for Q1, however, the variance is larger than typical due to COVID impacts). FYTD net income was \$22.5M, which is \$16M over budget. Net income is over budget due to under budget department spend for Q1 and higher than budgeted revenues, relative to fuel and purchased power costs.

YTD O&M spend is about \$8.5M under budget. \$3M of this is due to our VEBA expense being under budget, which was budgeted conservatively due to the COVID-19 uncertainty affecting our investment returns. \$4M is due to outside service and other operating expenses being under budget, as contract work has been restricted due to COVID-19. Q1 budget reviews will take place in mid-November to review COVID-19 budget impacts (+/-) and finance will assess which will be recurring and adjust projections as necessary. YTD DEP spend is \$36M under budget primarily due to timing of DEP invoicing in the month of September. October is expected to reflect a catch up in DEP spend. YTD RoA is 2.89%, which is greater than budgeted YTD RoA of 1.24%, due to over budget net income, as a result of the factors noted above.

Debt to total assets is currently underperforming against its benchmark. This is due to the issuance of the 2019A bonds. It will increase again slightly as we complete the third phase of financing for Delta Energy Park before decreasing as we pay off our outstanding debt. Days Sales Outstanding of 25 days is not beating its year-over-year benchmark for September of 22 days primarily due to increased accounts receivable due to COVID-19 payment delays. The Bad Debt ratio falls short of its benchmark due to the increased bad debt expense associated with COVID-19.

Employee count YTD is 685 and the budgeted YTD of 732 will slowly decline to FY21 budgeted headcount of 727 full time employees (FTE's) as natural attrition occurs. Employee headcount is being supplemented by 32 full time equivalent temporary employees. This was expected to decline by 12, as the summer internship program ended in August; however, 6 of the interns were offered extended internships. In Payroll Data the Labor \$/Hours Worked metric has remained in line with year prior. Overall YTD benefits costs finish underbudget, over \$1.1M, as BWL has experienced lower than expected medical claims.

Commissioner Lenz asked that the Commissioners be provided with findings of costs or impacts from COVID-19. CFO Shawa responded that she will provide it in the monthly update and at the next Finance Committee meeting to all the Commissioners. CFO Shawa added that travel expenses for consultants during COVID-19 will not be incurred.

Commissioner Lenz commented that most of the bad debt is due to COVID-19 and that repayment plans will be implemented rather than forgiveness of bad debt.

Commissioner Jester asked what the standards were for debt collection on uncollectable debts. CFO Shawa responded she will provide that information along with the previously requested information.

Commissioner Leek asked if a customer is not able to pay a debt what the shutoff protocol is. GM Peffley responded that there is a current no shut off in effect until spring. GM Peffley added that if there is a repayment plan in process, utilities will not be shut off.

Retirement Plan Committee (RPC)

CFO Shawa followed up on the two updates provided by the HR Committee and stated that the communications have been sent and received by plan participants and the postings will be posted on November 16, 2020 and November 23, 2020 as scheduled.

VEBA Funding Operational Procedure:

CFO Shawa stated that the VEBA fund was fully funded last year and went from 94% to 130% funding status and turned the VEBA Plan Funding Procedure presentation over to Finance Manager, Mr. Scott Taylor. Mr. Taylor defined the VEBA Plan as a tax-exempt trust, a post-retirement benefit plan to pay retiree healthcare costs. The previous funding strategy for the plan was funding through an Actuarially Determined Contribution (ADC) or the current year's benefit payments in order that the plan reach fully funded status, and it worked. The new funding plan will maintain a funded status of 120% and the BWL operating funds will now be able to receive reimbursement from the VEBA Plan on a quarterly basis when the qualifications are met.

Commissioner Lenz asked whether there was a plan on how the amount will be spent if a refund is received and the amount goes into the operating fund. Mr. Taylor responded that it would contribute to Days Cash on Hand and be part of the strategic and operating plan.

Commissioner Zerkle asked why retirees wouldn't receive a benefit from this. Mr. Taylor responded that money is being contributed by BWL over and above to ensure the plan is fully funded and isn't a retiree benefit. CFO Shawa added it is a cash flow item and not a cost savings item. Commissioner Zerkle asked why the retirees wouldn't benefit from the more efficient way of the increase of funds as the program was created for them. Commissioner Lenz responded that the additional revenue which funds the plan and provides benefits to employees comes from ratepayers and there is a responsibility to ratepayers. The overfunding provides assurance that employees will receive good benefits. Mr. Taylor added that some companies pay the benefits directly from the trust and then any shortfall would be contributed by the employer. BWL is making the contributions first and then returning any excess to the operating fund. Mr. Taylor and CFO Shawa also added that the procedure can be reviewed if there is feedback that the procedure is unwelcome.

Mr. Taylor explained that a target of 120% was selected for the following reasons:

- Greater returns can be expected to be earned with retirement fund investments versus operating fund investments.
- The impact of low investment returns, increases in benefit costs, and any other adverse circumstances will be softened.
- Maintaining a funded status of at least 100% will be more likely.

Finance Chair Lenz asked about the forecasting of placing additional money in the VEBA fund rather than in the operational fund, and based on the 120% target reasons, if BWL was comfortable using the VEBA plan as a revenue generating source for the operating fund. Mr. Taylor responded that the 120% is a win-win as the extra earnings that are generated in the plan reduce the funds that are needed to be collected from ratepayers.

Finance Chair Lenz asked if there is a requirement in BWL's charter on how money is to be spent or how the budget is set. Mr. Taylor responded that there is a fiduciary responsibility to the ratepayers to operate as cost effectively as possible and the rates are based on costs. CFO Shawa added that when the Return on Assets is maintained, it allows reinvesting in the infrastructure.

Commissioner Price commented that BWL is owned by the city, makes payments to the city in the amount of \$23.1 million and doesn't have shareholders so any excess revenue is funded back into the BWL. Mr. Taylor stated that the rates have to be established for certain metrics,

such as cash, and that BWL has consulted with their financial advisor and actuary regarding industry practices and they have approved and supported the procedures. GM Peffley responded that any excess funding will help offset future rate hikes.

Utility System Revenue Bond Amendment Resolution

CFO Shawa introduced municipal advisor, Mr. Chris Lover, from Public Financial Management (PFM) and bond counsel, Mr. Jeff Aronoff, from Miller Canfield who were available for questions. CFO Shawa and Mr. Taylor provided information on the financing strategy for Delta Energy Park which included a variable bond issuance option. The current amended bonded resolution gave the CFO the option to issue a variable rate bond if the market was favorable. Current market conditions were reviewed and there is a recommendation to issue two series of bonds. The two series of bonds will each provide about 50% of required funding. The first series will be for a long term, fixed rate bond issuance and the second series will be for a short term fixed rate bond issuance which allows a lower rate of interest and the flexibility to restructure the interest rate periodically. The resolution being presented for approval requests an amendment which modifies the interest rate parameter of the bond authorization associated with Delta Energy Park.

Finance Chair Lenz asked for estimate on the interest rate that would incentivize payment and if this was amendment was to take advantage of lower interest rates. Mr. Taylor responded that the rate is between 6-8% which may be an inclining rate or a steady rate and it is unlikely that we would actually have to pay this higher rate. Mr. Aronoff emphasized that the alternate rate is unlikely to occur but want the option available.

Commissioner Merrill asked if the variable rate bonds will be original issue that are tax exempt or are the bonds being reissued and taxable. Mr. Taylor responded that the bonds will be original issue and tax exempt.

Motion by Commissioner Price, **Seconded** by Commissioner Graham to forward the Utility System Revenue Bond Amendment Resolution to the full Board for consideration.

Motion Carried by the following Roll Call Vote:

Yeas: Commissioners Lenz, Graham, Price, and Ross

Nays: None

Internal Audit Status Report

Internal Auditor, Mr. Wesley Lewis, presented the Internal Auditor Status Report.

Audit Progress Report

Audit Engagements and Activities in Audit Plan Currently Underway and/or Scheduled to Start

1. **Energy Risk Management** - Fieldwork has wrapped up and the audit is in the reporting stage. The draft audit report will be ready for discussion with management. **Estimated Time of Completion: November 2020**
2. **MPPA and Missed Billing** - This audit was kicked off and is in progress. This includes the documentation of information received and selection of a sample of transactions for testing. **Estimated Time of Completion: February 2020**
3. **Unbilled Accounts Receivable** - This audit was kicked off and is in progress. Initial meetings are taking place, along with information requests. **Estimated Time of Completion: February 2020**
4. **Purchase Card Usage and Control** - This audit was kicked off and is in progress. This includes initial meetings, documentation of information received, and selection of a sample of transactions for testing. **Estimated Time of Completion: March 2020**
6. **Cybersecurity Process and IT Vulnerabilities** - We selected Moss Adams as our outside IT Audit consultant to conduct this engagement for us. Their winning bid was \$68,500, which is below our \$75,000 line-item budget amount for outside consulting services. Moss Adams is currently in our vendor onboarding process. **Estimated Start Time: November 2020 Estimated Time of Completion: February 2020**



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Audit Progress Report (Cont'd)

Audit Engagements and Activities in Audit Plan Currently Underway and/or Scheduled to Start (Cont'd)

6. **Corporate Governance - Strategic Plan and Ethical Advocate System (Includes Hotline)** - **Estimated Start Time: April 2020 Estimated Time of Completion: June 2020**
7. **Other Audit Activities** - (Ongoing)

Note: Estimated Start and Completion Times of All Engagements Listed Above Are Subject to Change.



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Other Items

1. Update on Ongoing Education and Certification of IA Staff



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Other

Commissioner Price inquired about the questions regarding the errors in the 401a and 457b plans. Commissioner Lenz responded that if there were any questions at this time they should be asked.

Commissioner Thomas asked that additional time be provided for the responses to the questions, as this would allow for complete researched information to be provided to all Commissioners. Finance Chair Lenz responded that management has not had much time to prepare answers to the questions that were sent to them, and permitting additional time would allow for a thorough written response.

Commissioner Merrill commented that the questions require a dialogue and not just an answer. He also asked about the amount of the underfunded contributions and the capital gains in the plans. Chair Lenz responded that he would add that to the questions. Chair Lenz requested that management provide a written response to the questions by the end of the week.

Commissioner Price Complimented Finance Manager Scott Taylor on a well-done job regarding his Financial Audit presentation to the Lansing City Council at their Committee of the Whole Meeting.

Adjourn

Chair David Lenz adjourned the meeting at 8:20 p.m.

Respectfully submitted
David Lenz, Chair
Finance Committee



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

General:

This Charter defines the internal audit function at the Lansing Board of Water and Light (LBWL) and the commitment to the professional practice of internal auditing by the Board of Commissioners (Board) and Senior Management. It grants Internal Audit the authority to carry out its mission as set forth by the Board, Finance Committee, Chair of the Board, and General Manager.

Organization:

Since Internal Audit's organizational status and the support accorded to it by Senior Management are major determinants of its range and value, the Director of Internal Audit is appointed annually by the Board and reports to them through the Chair of the Finance Committee, thereby establishing a special, independent reporting relationship. The Board shall review and approve the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit.

Purpose and Mission:

Internal Audit is an independent, objective assurance, and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists the LBWL 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 processes.

The mission of Internal Audit is to assist the Board, management, and employees in effectively discharging their responsibilities by providing them with independent, objective evaluations, analyses, appraisals, recommendations, and information concerning activities reviewed and by promoting effective internal controls. This enables the Board to better serve customers, employees, and the community.

Authority:

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, shall have full, free, and unrestricted access to any and all LBWL activities, subsidiaries, functions, processes, and resources consisting of all personnel, transactions, records (including physical, manual, and electronic), company-owned devices and electronic media, operations, systems, properties, and other sources of information and supporting



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documentation required to carry out its mission¹. All processes, activities, and responsibility areas are subject to audit. All LBWL employees are requested and obligated to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free, unrestricted, and private access to the Board, Chair of the Board, Finance Committee, and General Manager.

Independence and Objectivity:

Internal Audit shall be a constructive, value-added service for (1) improving the effectiveness and efficiency of management processes, internal controls, and quality of performance by the LBWL in meeting its goals and objectives, (2) providing counsel and proactive advice concerning new systems, initiatives, and services under development, and (3) evaluating the systems and internal controls established to ensure compliance with established laws and regulations, corporate plans, principles, and prudent business practices. To ensure independence, Internal Audit shall have no direct responsibility or any authority over any of the activities or operations of the LBWL.

Internal Audit reports to the Board and will govern itself by adherence to The Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. The Director of Internal Audit will report periodically to Senior Management and the Board regarding Internal Audit's conformance to the Code of Ethics and the Standards. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to LBWL's relevant policies and procedures and Internal Audit's standard operating procedures manual. And, as supplemental guidance for the performance of audits, Internal Audit shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office.

Internal Audit will remain free from interference by any element in LBWL, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. In addition, Internal Audit will audit and evaluate the organization's processes and functions using a risk-based approach. Accordingly, Internal Audit will not implement internal controls, implement procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment. Internal Audit will exhibit the highest level of professional objectivity in gathering, evaluating, and

¹ This also includes access to all LBWL information and records and full audit reports that pertain to audits conducted by the North American Electric Reliability Corporation for its Critical Infrastructure Protection Plan (NERC CIP).



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communicating information about the activity or process being examined and will make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Director of Internal Audit, who also serves as the Chief Audit Executive, will confirm to the Board, in writing at least annually, the organizational independence of the internal audit activity.

Responsibility and Scope:

Management is responsible for establishing and maintaining risk management, internal controls, and governance processes for the organization. The scope of Internal Audit encompasses, but is not limited to, the evaluation of the adequacy and effectiveness of the organization's processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes the following:

Organization:

- Evaluating risk exposure relating to the achievement of strategic objectives and determining whether they are appropriately identified and managed.
- Evaluating information and the means used to identify, measure, analyze, classify, and report such information to determine if they are reliable and have integrity.
- Evaluating significant financial, managerial, and operating information to determine if it is accurate, reliable, and timely.
- 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 and determining whether they are acquired economically, used efficiently, and adequately accounted for and protected.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.



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- Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit.
- Determining if management, employee and independent contractor actions are compliant with policies, procedures, standards, laws, regulations, and contracts.

Internal Audit:

- 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.
- Performing consulting and advisory services related to governance, risk management, and control as appropriate for the organization.
- Reporting periodically on Internal Audit's purpose, authority, responsibility, and performance relative to its plan.
- Meeting periodically with the Finance Committee to review Internal Audit's scope, staffing, training/development, budget, and audit schedule. In addition, the Director of Internal Audit will confirm to the Board and Finance Committee, in writing at least annually, the organizational independence Internal Audit.

Internal Audit Plan:

At least annually, the Director of Internal Audit will submit to the Board and General Manager an internal audit plan for review and Board approval. The internal audit plan will be developed using a risk-based methodology, including input of the General Manager and the Board. The Director of Internal Audit will review and adjust the plan, as necessary, 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 the Board and the General Manager through periodic activity reports.

Reporting and Monitoring:

A written report will be prepared and issued by the Director of Internal Audit 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 Board.

The internal audit report may include management's response and corrective action taken or to be taken regarding the specific findings and recommendations. Management's response,



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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 anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Internal

Audit will be response for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Director of Internal Audit will periodically report to the Board and Senior Management on the internal audit activity's purpose, authority, and responsibility, 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 Board.

Periodic Assessment For Quality Assurance and Improvement:

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Director of Internal Audit will communicate annually to the General Manager and the Board on Internal Audit's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal Audit Charter Approval

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Charter as amended to which conforms to the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

Approved by the Board of Commissioners on Tuesday, September 24, 2019



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

General:

This Charter defines the internal audit function at the Lansing Board of Water and Light (LBWL) and the commitment to the professional practice of internal auditing by the Board of Commissioners (Board) and Senior Management. It grants Internal Audit the authority to carry out its mission as set forth by the Board, Finance Committee, and the Chair of the Board, ~~and General Manager.~~

This charter's content and requirements primarily originate from the professional standards of the Institute of Internal Auditors (IIA). In addition, the professional standards of the Information Systems Audit and Control Association (ISACA), Association of Certified Fraud Examiners (ACFE), and American Institute of Certified Public Accountants (AICPA), contributed to this charter's development. All of these standards define mandatory requirements that the internal audit function must meet in order to properly execute its mission and fulfill its purpose as defined in this charter and required by the Board.

Organization:

Since Internal Audit's organizational status and the support accorded to it by Senior Management are major determinants of its range and value, the Director of Internal Audit is appointed annually by the Board and reports to them through the Chair of the Finance Committee, thereby establishing a special, independent reporting relationship. The Board shall review and approve the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit.

In order for the internal audit function to properly execute its mission and fulfill its purpose, the LBWL requires its internal audit staff to have experience and be certified in the related disciplines of internal auditing, accounting, fraud examination, or information systems auditing. Thus, in order to remain certified, the audit staff is expected and required by the Board to obtain and fully maintain its certifications through compliance and adherence to the professional standards of the organizations outlined above.

Purpose and Mission:

Internal Audit is an independent, objective assurance, and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists the LBWL in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, fraud prevention and detection, and internal control processes.



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The mission of Internal Audit is to assist the Board, management, and employees in effectively discharging their responsibilities by providing them with independent, objective evaluations, analyses, appraisals, recommendations, and information concerning activities reviewed and by promoting effective internal controls. This enables the Board to better serve customers, employees, and the community.

The mission does not limit Internal Audit to any one specific planned audit engagement or group of engagements. It defines that its mission be proactive, ongoing, and continuous, all of which are expected and required by the standards of the IIA, ISACA, ACFE, and AICPA in order for Internal Audit to execute its mission and fulfill its purpose on an ongoing basis.

Authority:

Internal Audit, with strict accountability for confidentiality, sensitivity, and safeguarding records and information, shall have full, free, unfettered, and unrestricted, unfiltered, continuous, and ongoing access to any and all LBWL activities, subsidiaries, functions, processes, and resources consisting of all personnel, transactions, books and records (including physical, manual, and electronic), company-owned devices and electronic media, operations, systems, properties, and other sources of information and supporting documentation required to carry out its mission¹. All processes, activities, and responsibility areas are subject to audit. All LBWL employees are ~~requested and~~ obligated and expected to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free, unfettered, unfiltered, unrestricted, and private access to the Board, Chair of the Board, Finance Committee, and General Manager.

Independence and Objectivity:

Internal Audit shall be a constructive, value-added service for (1) improving the effectiveness and efficiency of management processes, internal controls, and quality of performance by the LBWL in meeting its goals and objectives, (2) providing counsel and proactive advice concerning new systems, initiatives, and services under development, and (3) evaluating the systems and internal controls established to ensure compliance with established laws and regulations, corporate plans, principles, and prudent business practices. To ensure independence, Internal Audit shall have no direct responsibility or any authority over any of the activities or operations of the LBWL.

Internal Audit reports to the Board and will govern itself by adherence primarily to The Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, ~~and~~ the International Standards for the Professional Practice of Internal Auditing

¹ This also includes access to all LBWL information and records and full audit reports that pertain to audits conducted by the North American Electric Reliability Corporation for its Critical Infrastructure Protection Plan (NERC CIP) and other federal, state, and local regulatory agencies.



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(*IIA Standards*), with the support of the standards of the ISACA, ACFE, and the AICPA that do not conflict with the *IIA Standards*. This mandatory guidance and Internal Audit's compliance with the aforementioned standards constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. The Director of Internal Audit will report periodically to Senior Management and the Board regarding Internal Audit's conformance and adherence to the IIA Code of Ethics, IIA Standards, and the supporting, non-conflicting codes of ethics and the Standardsstandards of the other aforementioned organizations. The IIA's PracticeThe practice Advisoriesadvisories, Practice-practice Guidesguides, and Position Papers-papers, and other guidelines of the aforementioned organizations will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to LBWL's relevant policies and procedures and Internal Audit's standard operating procedures manual. And, as supplemental guidance for the performance of audits, Internal Audit shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office.

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The Director of Internal Audit, who also serves as the Chief Audit Executive, will confirm to the Board, in writing at least annually, the organizational independence of the internal audit activityfunction.

Responsibility and Scope:

Management is responsible for establishing and maintaining risk management, internal controls, and governance processes for the organization. The scope of Internal Audit encompasses, but is not limited to, the evaluation of the adequacy and effectiveness of the organization's processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes the following:



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

Organization:

- Evaluating risk exposure relating to the achievement of strategic objectives and determining whether they are appropriately identified and managed.
- Evaluating information and the means used to identify, measure, analyze, classify, and report such information to determine if they are reliable and have integrity.
- Evaluating significant financial, managerial, and operating information to determine if it is accurate, reliable, and timely.
- 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 and determining whether they are acquired economically, used efficiently, and adequately accounted for and protected.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit.
- Determining if management, employee and independent contractor actions are compliant with policies, procedures, standards, laws, regulations, and contracts.

Internal Audit:

- 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.
- Performing consulting and advisory services related to governance, risk management, and control as appropriate for the organization.
- Reporting periodically on Internal Audit's purpose, authority, responsibility, and performance relative to its plan.
- Meeting periodically with the Finance Committee to review Internal Audit's scope, staffing, training/development, budget, and audit schedule. In addition, the Director of Internal Audit



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

will confirm to the Board and Finance Committee, in writing at least annually, the organizational independence Internal Audit.

Internal Audit Plan:

At least annually, the Director of Internal Audit will submit ~~to the Board and General Manager~~ an internal audit plan to the Board for its review and Board approval. The internal audit plan will be developed using a risk-based methodology, including input of the General Manager and the Board. The Director of Internal Audit will review and adjust the plan, as necessary, 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 the Board ~~and the General Manager~~ through periodic activity reports.

Reporting and Monitoring:

A written report will be prepared and issued by the Director of Internal Audit 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 Board.

The internal audit report may include management's response 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 anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Internal Audit will be response for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Director of Internal Audit will periodically report to the Board ~~and Senior Management~~ on the internal audit activity's purpose, authority, and responsibility, 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 Board.

Periodic Assessment For Quality Assurance and Improvement:

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing, ~~and the IIA Standards and the supporting, non-conflicting standards of the other aforementioned organizations,~~ and an evaluation of whether internal auditors apply the IIA Code of Ethics and the supporting, non-conflicting codes of ethics

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Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

of the other aforementioned organizations. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Director of Internal Audit will communicate annually to the ~~General Manager and the~~ Board on Internal Audit's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal Audit Charter Approval

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Charter as amended to which conforms to the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

DRAFT

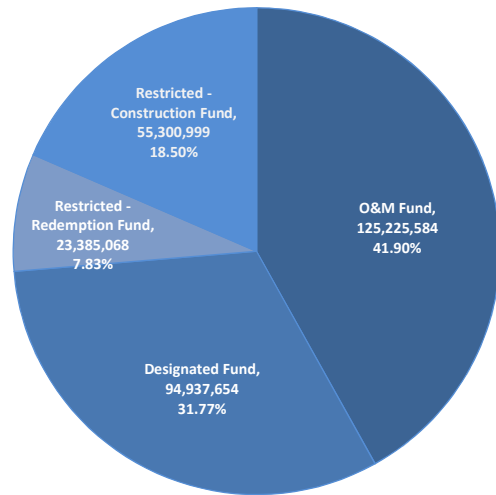
Proposed Resolution
Internal Audit Charter Approval

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Charter as amended to which conforms to the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors.

Financial Summary - November 2020



Cash



Total Cash: \$298,849,305

	Month End	Target
Days Cash on Hand	231	169
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.89	2.00

Days Cash on Hand:

O&M Fund - Portion Restricted By Bond Covenants + Designated Funds
 (Budgeted Operating Expenses - Depreciation + RoE to City) / 365

Debt Service Coverage:

Projected Net Income + Depreciation Expense + Interest Expense
 Debt Principal + Debt Interest

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 156,519,729	\$ 150,463,983	6,055,747	4%
Wholesale	\$ 5,262,410	\$ 11,677,516	(6,415,106)	-55%
Total Revenue	\$ 161,782,139	\$ 162,141,499	(359,360)	0%
Operating Expenses	\$ 115,720,615	\$ 135,364,942	(19,644,327)	-15%
Non Operating Income/(Expense)	\$ (19,267,081)	\$ (20,895,680)	1,628,599	-8%
Net Income	\$ 26,794,443	\$ 5,880,876	20,913,567	356%

FY 2021 Budgeted Net Income \$ 1,498,728

Budget Status YTD

O&M Budget YTD (excluding fuel)

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 165,172,836	\$ 58,153,279	\$ 67,904,343	(9,751,064)	-14%
% of Approved Budget	35%	41%		

Capital Budget YTD (Excluding Delta Energy Park)

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 71,299,118	\$ 24,514,963	\$ 23,344,904	1,170,058	5%
% of Approved Budget	34%	33%		

Capital Budget YTD - Delta Energy Park Only

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 121,834,403	\$ 46,697,023	\$ 75,186,721	\$ (28,489,698)	-38%
% of Approved Budget	38%	62%		

Return on Assets

Actual YTD	Budget YTD	Target
3.60%	1.63%	4.14%

Return on Assets = $\frac{\text{YTD Net Income} + \text{YTD Interest Expense}}{\text{Net Fixed Assets} + \text{Inventory}}$

Financial Summary - November 2020



Ratios

Operating Ratio

$$\frac{\text{O\&M Expense}}{\text{Revenue}} = \frac{\$ 95,104,411}{\$ 161,782,139} = 0.59$$

APPA Median
0.68

Measures the proportion of revenues to cover the operations and maintenance costs

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$ 251,674,657}{\$ 66,292,561} = 3.80$$

APPA Median
1.62

Measures whether current assets are sufficient to pay current liabilities within one year

Debt to Total Assets

$$\frac{\text{LT Debt + Accrued Liabilities}}{\text{Total Assets}} = \frac{\$ 820,988,185}{\$ 1,473,715,058} = 0.56$$

APPA Median
0.54

Measures the ability to meet its current and long-term liabilities based on the availability of assets

Days Sales Outstanding

$$\frac{\text{Accounts Receivable}}{\text{Average Sales}} \times \text{Days} = \frac{\$ 24,315,986}{\$ 29,274,069} \times 30 = 25$$

Prior Year
27

Measures the average number of days it takes to collect payment after a sale is made

Bad Debt

$$\frac{\text{12 Month Rolling Bad Debt}}{\text{12 Month Rolling Revenue}} = \frac{\$ 3,052,923}{\$ 356,625,361} = 0.86\%$$

Prior Year
0.44%

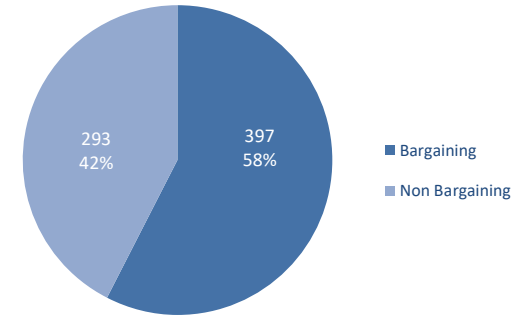
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	690
Budget YTD	731
Over/(Under) #	(41)

Full Time Equivalent
Temporary Employees 32



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 25,763,163	\$ 27,660,639	\$ (1,897,476)	-6.9%	51.96
Overtime	\$ 2,607,558	\$ 2,516,878	\$ 90,680	3.6%	
Total	\$ 28,370,721	\$ 30,177,517	\$ (1,806,796)	-6.0%	
Total Hours Worked	538,637				
Labor \$/Hours Worked	\$ 52.67				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 5,245,934	\$ 6,386,630	\$ (1,140,696)
RX	\$ 1,618,704	\$ 1,449,190	\$ 169,514
Dental	\$ 544,495	\$ 568,400	\$ (23,905)
Life	\$ 160,794	\$ 162,915	\$ (2,121)
FICA	\$ 2,068,835	\$ 2,407,935	\$ (339,100)
Other	\$ 575,955	\$ 912,013	\$ (336,059)
Total	\$ 10,214,717	\$ 11,887,083	\$ (1,672,366)

Follow-up to Internal Audit Findings & Recommendations

Finance Committee 1/12/2021

Resolution #2018-07-05

Board Policy on Follow-up to Internal Audit Findings & Recommendations

- ▶ Internal Audit
 - ▶ Perform audits, report findings, provide recommendations, record management's response, verify completion of corrective actions
- ▶ Management
 - ▶ Respond to findings and recommendations, identify and execute appropriate and timely corrective actions
- ▶ Follow-up of Open Management Responses to Audit Findings
 - ▶ An open action items list is maintained for progress tracking
 - ▶ Management reports progress to the Finance Committee semi-annually (Jan & July)

Open Actions

- ▶ Procurement
 - ▶ Standardize and centralize storage of purchasing documentation - ECD 1/31/2020, delay from 12/31/20, due to training of external departments on new procedure.
 - ▶ Completed action - The purchasing processes and procedures were updated and implemented to ensure that purchasing documents are stored in a standardized and centralized manner. Additionally, a new process and procedure was developed and implemented for departments external to the purchasing department to ensure that their purchasing documents are stored in one central location.
 - ▶ Remaining action - Train departments external to the purchasing department on how to utilize the new document retention process.

Open Actions (continued)

- ▶ Energy Risk Management (New)
 - ▶ Develop BWL Performance ERM Status Report - ECD 2/28/2021
 - ▶ Completed action -Development of performance ERM Status Report has begun. Management has been working with XStone to develop the “ERM Status Report” that serves the same purpose as a scorecard to measure performance.
 - ▶ Remaining action - Finalize measures and format of the ERM Status Report as described in the BWL Energy Risk Management Policy.

Closed Actions

- ▶ Procurement
 - ▶ Improve controls related to maintenance of vendor information - initial ECD (Expected Completion Date) 6/30/20, actual completion date ECD 8/31/20, delay primarily due to recent staffing changes
 - ▶ Accounts payable procedures have been updated; # of employees with conflicting authorization has been reduced from 11 to 1; purchasing manager has begun conducting weekly reviews of vendor changes
 - ▶ Developed purchasing procedures for adding, disabling, and deleting vendors; # of employees with conflicting authorization reduced from 1 to 0.
- ▶ Cash Management & Treasury
 - ▶ Improve controls surrounding daily accounts payable disbursements - ECD 12/31/20, actual completion date 12/31/20
 - ▶ Developed a written process and procedure for review of disbursements by the Accounting and Finance Manager for payment runs.
 - ▶ This process will be reexamined with a 3rd party as of part of the electronic payment project to be undertaken in FY22.

Closed Actions (continued)

- ▶ Cash Management & Treasury
 - ▶ Establish more centralized and comprehensive transaction approval documentation for significant transactions - ECD 9/30/20, actual completion date 12/31/20
 - ▶ A centralized transaction approval limits matrix has been created that includes transaction approval limits for Accounting, Finance, Procurement and Legal Signature Authority. This matrix makes approval limits and signature authority readily available in one consolidated location.
- ▶ Energy Risk Management (New)
 - ▶ Requirements pertaining to employee acknowledgment of document forms are followed as stated in the BWL Energy Risk Management Process Policies and Procedures- ECD 11/30/20, actual completion date 10/7/20
 - ▶ All appropriate employee signatures were collected and saved. We will ensure continued compliance with the collection and retention requirements of the ERM program.

Closed Actions (continued)

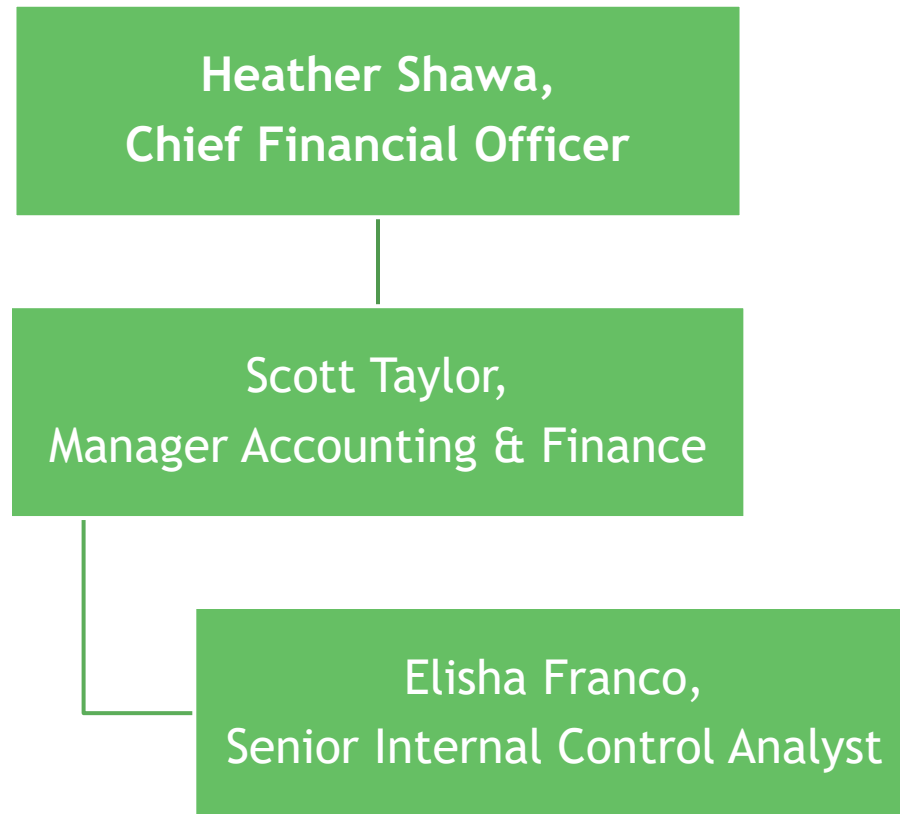
- ▶ Energy Risk Management (New)
 - ▶ Implement a formal user access security review process, including written policies and procedures for the Know-Risk Commodity Management System- ECD 12/31/20, actual completion date 12/31/20
 - ▶ A formal user access security review procedure was developed and implemented to allow for a designee reviewer to verify user access is proper for the Know-Risk Committee Management System. This review will be completed no less than every six months.
- ▶ Energy Risk Management (New)
 - ▶ Proper maintenance and safekeeping of the ROC and RAC meeting minutes- ECD 12/31/20, actual completion date 12/31/20
 - ▶ Completed action- The BWL Energy Risk Management Program Policies and Procedures have been updated to allow for a designee to maintain and keep proper maintenance and safekeeping of the ROC and RAC meeting minutes.



Internal Control Department

Presented by: Elisha Franco
Senior Internal Control Analyst

Internal Control Function Organization Chart



Internal Control Function

▶ Internal Control Purpose:

- ▶ Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.
- ▶ “...a means by which an organization's resources are directed, monitored and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources”
- ▶ Internal control is a function within corporate governance, separate and distinct from internal audit and compliance.

Internal Control Function

Internal Control vs. Internal Audit

Internal Control

- ▶ Management Directed
- ▶ Adheres to Internal Control Charter
- ▶ Informal Reviews of Transactions and Processes
- ▶ Liaison Between Management and Internal Audit
- ▶ Involved in the Design and Implementation of Process and Controls
- ▶ Helps Ensure Assets are Protected from Unauthorized Access and Use

Internal Audit

- ▶ Board Directed
- ▶ Adheres to Internal Audit Charter
- ▶ Formal Audits of Existing Policies and Procedures
- ▶ Conducts Risk Assessments which determine its Annual Audit Plan
- ▶ Verifies Compliance with Management Policies
- ▶ Evaluates the Effectiveness of Controls
- ▶ Audits whether Assets are Protected from Unauthorized Access and Use

Internal Control Function

▶ Internal Control Mission:

- ▶ Internal control conducts independent and objective control reviews of BWL's operations and procedures and oversees the integrity of BWL's internal control environment.
- ▶ Success of the mission depends on the endorsement and ongoing support of Executive Management.

Internal Control Function

▶ Internal Control Authority:

- ▶ The Internal Control Department, with strict accountability for confidentiality and safeguarding of records and information, shall have access, on an as needed basis.
- ▶ Consisting of:
 - ▶ Transactions, records (including physical, manual, and electronic), company owned devices and electronic media, operations, systems, properties, and other sources of information supporting documentation required to carry out its mission.
- ▶ All BWL employees are requested and obligated to assist the Internal Control Department in fulfilling its roles and responsibilities.

Internal Control Function

▶ Internal Control Objectivity:

- ▶ Internal Control shall be a constructive, value added service for:
 - ▶ Improving the effectiveness and efficiency of management processes, improving internal controls, and quality of performance by the BWL in meeting its goals and objectives.
 - ▶ Providing counsel and proactive advice concerning new systems, initiatives, and services under development.
 - ▶ Evaluating the systems and internal controls established to ensure compliance with established laws and regulations, corporate plans, principles, and best practices.

COSO Framework

- Internal Control will adhere to the Committee of Sponsoring Organization (2013 COSO) framework.
- This framework provides guidance to management on how to establish better controls so organizations can achieve their objectives through effective operations.
- The framework is comprised of five components and seventeen principles.



Internal Control Function

► Responsibilities

- Key area responsibilities include, but not limited to:
 - Evaluate specific operations at the request of management as appropriate.
 - Evaluate significant risk exposures and control issues, including fraud risk, governance issues and other matters requested by management.
 - Develop, maintain and monitor internal control policies and procedures.
 - Maintain a list of reportable internal audit findings and related management responses.
 - Serves as liaison between internal audit and the department being audited.
 - Promote the value of internal controls to departments throughout BWL.

Internal Control Function

- ▶ 2020-2021 Transactional & Operational Review Work Plan
 - ▶ Remote Work Logs (New) 2nd quarter
 - ▶ Customer Projects Joint-Use (New) 2nd quarter
 - ▶ Reconnect Fees (Follow Up) 3rd quarter
 - ▶ Fleet Fuel Operations (Follow Up) 4th quarter

Internal Control Function

Questions

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Contact information:

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Phone: (517) 242-0534



Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
January 12, 2021

Overview

- Audit Progress Report
- Other Items

Audit Progress Report

Audit Engagements and Activities in Audit Plan Currently Underway and/or Scheduled to Start

1. **Energy Risk Management** – The final audit report was issued on 12/3/2020.
2. **MPPA and MISO Billings** – This audit was kicked off and is in progress. This includes the documentation of information received and selection of a sample of transactions for testing. **Estimated Time of Completion: February 2021**
3. **Unbilled Accounts Receivable** – This audit was kicked off and is in progress. Initial meetings are taking place, along with information requests. **Estimated Time of Completion: February 2021**
4. **Purchase Card Usage and Control** – This audit was kicked off and is in progress. This includes initial meetings, documentation of information received, and selection of a sample of transactions for testing. **Estimated Time of Completion: March 2021**
5. **Cybersecurity Process and IT Vulnerabilities** – We initially selected Moss Adams as our outside IT Audit consultant to conduct this engagement for us. Unfortunately, after trying to negotiate contract terms with them, we reached an impasse. Thus, we decided to move on to the runner-up bidder, which was BDO. BDO adjusted their bid to \$62,000, which is even less than our budget. Purchasing is in the process of finalizing and onboarding them now. **New Estimated Start Time: January 2021** **New Estimated Time of Completion: March 2021**

Audit Progress Report (Cont'd)

Audit Engagements and Activities In Audit Plan Currently Underway and/or Scheduled to Start (Cont'd)

6. Corporate Governance – Strategic Plan and Ethical Advocate System (Includes Hotline) –
Estimated Start Time: April 2021 Estimated Time of Completion: June 2021
7. Other Audit Activities – (Ongoing)

Note: Estimated Start and Completion Times of All Engagements Listed Above Are Subject to Change.

Other Items

1. Update on Ongoing Education and Certification of IA Staff