



AGENDA

FINANCE COMMITTEE MEETING November 8, 2016 - 6:00 P.M. 1201 S. Washington Ave. REO Town Depot

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of September 13, 2016.....**TAB 1**
2. September YTD Financial Summary.....**TAB 2**
3. Capital Project Exceedance Resolution.....**TAB 3**
4. Revenue Bond Resolution.....**TAB 4**
5. Internal Audit Open Management Response Quarterly Report.....**TAB 5**
6. Internal Audit Status Report.....**TAB 6**
7. PA95 Low-Income Energy Assistance Fund.....**PRESENTATION/DISCUSSION**
8. Franchise Agreement – E. Lansing.....**PRESENTATION/DISCUSSION**

Other

Adjourn

FINANCE COMMITTEE

September 13, 2016

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, at 6:35 p.m. on Tuesday, September 13, 2016.

Acting Finance Committee Chairperson David Price called the meeting to order and asked that roll be taken.

Present: Commissioners Mark Alley, Dennis M. Louney and David Price. Also, present Commissioners Tony Mullen and Sandra Zerkle. Non-Voting Members Present: Commissioners Stuart Goodrich (Delhi), Bill Long (Delta Township) and Bob Nelson (East Lansing).

Absent: Commissioner Ken Ross

The Corporate Secretary declared a quorum.

Public Comments

None.

Approval of Minutes

Motion by Commissioner Alley, Seconded by Commissioner Louney, to approve the Finance Committee meeting minutes of July 12, 2016.

Action: Motion Carried.

Baker Tilly External Audit Report- Resolution

Heather Shawa-DeCook, Chief Financial Officer (CFO), introduced external auditor Jodi Dobson, Partner with the Certified Public Accounting Firm, Baker Tilly, Virchow Krause LLP, who presented and reviewed the auditing process, observations and recommendations, and also covered the required communication to the governing body for the various Board of Water and Light reports. The enterprise fund and the three pension funds, Defined Contribution Plan (DC Plan), Defined Benefit Plan (DB Plan), and the VEBA Benefit Trust, which all received an unmodified audit opinion.

Ms. Dobson's presentation was as follows:

LANSING BWL
Hometown People. Hometown Power.

Finance Committee Meeting -
September 13, 2016
2016 Audit Presentation

Agenda

- > Audit Overview
- > Observations and Recommendations
- > Required Communication to Governing Body

BAKER TILLY
INTERNATIONAL
Center. Insight. Results.

Board of Water and Light - City of Lansing
Audit overview

BAKER TILLY
Center. Insight. Results.

- Audit performed in accordance with *Generally Accepted Auditing Standards*
- Audit objective - reasonable assurance that financial statements are free from material misstatement
- Financial statements of BWL received an *Unmodified Opinion*

Financial Statements include

- Auditors' report
- Management discussion and analysis
- Enterprise fund statements
- Consolidated pension trust statements
- Notes
- Required supplemental information
- Additional information

LANSING BWL
Hometown People. Hometown Power.

Board of Water and Light - City of Lansing Audit overview

BAKER TILLY
Candor. Insight. Results.

Audit assesses internal controls

"...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"

Controls must meet the goal and objectives of Operations, Reporting and Compliance

Board of Water and Light - City of Lansing Audit overview

BAKER TILLY
Candor. Insight. Results.

Controls reviewed in key transaction areas

- Disbursements
- Payroll
- Billings
- Cash and investments
- Capital assets
- Information technology
- Financial reporting

Board of Water and Light - City of Lansing Observations and recommendations Enterprise Fund

BAKER TILLY
Candor. Insight. Results.

- > Reported net income of \$900,000 after impairment on Eckert Power Station of \$15,763,000
- > Bond coverage was met in 2016
- > There were no material weaknesses reported
- > Combined deficiencies in control related to information technology resulted in a significant deficiency
- > GASB Statement No. 72 disclosures related to fair value were implemented as required

Board of Water and Light - City of Lansing Observations and recommendations Enterprise Fund

BAKER TILLY
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Operating Revenues – Four-year Comparison (in thousands)

	2013	2014	2015	2016
Water	\$ 37,444	\$ 37,247	\$ 37,910	\$ 38,731
Electric	277,157	289,154	295,048	303,246
Steam	12,029	16,324	14,959	12,683
Chilled Water	5,140	5,397	5,568	6,276
Operating Revenue	\$ 331,770	\$ 348,122	\$ 353,485	\$ 360,936

Board of Water and Light - City of Lansing Observations and recommendations Enterprise Fund

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Operating Expenses – Four-year Comparison (in thousands)

	2013	2014	2015	2016
Production	\$ 176,677	\$ 182,244	\$ 187,752	\$ 178,958
Transmission and Distribution	15,647	23,093	20,870	21,593
Administrative and General	65,096	66,583	61,298	64,007
Depreciation	38,298	38,997	39,104	41,542
Operating Expenses	\$ 295,718	\$ 310,917	\$ 308,024	\$ 306,100

Board of Water and Light - City of Lansing Observations and recommendations Enterprise Fund

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Operating Income – Four-year Comparison (in thousands)

	2013	2014	2015	2016
Water	\$ 5,339	\$ 2,056	\$ 4,637	\$ 6,307
Electric	28,308	30,566	33,250	43,052
Steam	350	2,651	4,223	2,795
Chilled Water	1,504	1,953	2,351	2,651
Operating Income	\$ 35,495	\$ 37,206	\$ 44,461	\$ 54,805

Board of Water and Light - City of Lansing Observations and recommendations Enterprise Fund

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Candor. Insight. Results.

Future Debt Service Requirements (in thousands)

	2017	2018	2019	2020	2021
Principal	\$ 11,642	\$ 8,986	\$ 9,371	\$ 7,839	\$ 8,184
Interest	16,650	16,184	15,777	15,391	15,048


Debt service after 2021 includes remaining principal payments of \$339,970,000 and interest payments of \$270,158,000.

Board of Water and Light - City of Lansing Observations and recommendations Pension Plans

BAKER TILLY
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- > Separate financial statements issued for each pension plan
- > GASB Statement No. 72 was implemented for all three plans
- > All three plans received unmodified audit opinions

Board of Water and Light - City of Lansing
Observations and recommendations



Future accounting standards

- > GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans other than Pension Plans* – effective for fiscal year 2017
- > GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* – effective for fiscal year 2018

11



We appreciate the help of the Board of Water and Light General Accounting & Finance Teams in preparing for and assisting in the audit!



13

Contact Info



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15

Motion by Commissioner Louney, Seconded by Commissioner Alley to forward the Resolution for the acceptance of the Audited Financial Statements and the Enterprise Fund and Pension Fiduciary Fund to the full board for consideration.

Action: Motion Carried

Preliminary July Financial Highlights

Heather Shawa-DeCook, Chief Financial Officer (CFO), reported that the July Financial results are still underway and would be reported at a later date.

Board of Water and Light - City of Lansing
Auditor communication to those charged with governance



Area to be Communicated	Area to be Communicated
Our responsibility under Auditing Standards Generally Accepted in the United States	Other Information in Documents Containing Audited Financial Statements
Planned Scope and Timing of the Audit	Accounting Policies
Accounting Estimates	Financial Statement Disclosures
Difficulties Encountered in Performing the Audit	Corrected and Uncorrected Misstatements
Disagreements with Management	Consultations with Other Independent Accountants
Management Representations	Auditor Independence



12



Discussion



14

Ms. Shawa-DeCook informed the Committee that the BWL is taking advantage of an opportunity for an advanced refunding of 2008 A-Bonds, which entails significant interest savings.

DB and VEBA Investment Policy Statements-Resolution

Chief Financial Officer Heather Shawa-DeCook provided an overview of the revised Investment Policy Statements (documents) in which the Board's approval is necessary. The reviewed documents include:

- 1. Revised Investment Policy Statement for Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions (the "Defined Benefit Plan")*
- 2. Revised Investment Policy Statement Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light (the "Retiree Medical Benefit Plan")*
- 3. First Amendment to the Pension Plan Trust*
- 4. First Amendment to the Retiree Benefit Plan Trust*
- 5. Resolution which captures the above 4 documents and creates a Retirement Plan Committee.*

Recommendations as indicated in the Executive Summary:

Summary Recommendation

Senior Management recommends approval of the Defined Benefit Plan IPS and the Retiree Medical Benefit Plan IPS. Senior Management also recommends approval of the First Amendment to the Defined Benefit Plan Trust, the First Amendment to the Retiree Medical Benefit Plan Trust, and the creation of the Retirement Plan Committee. The proposed Retirement Plan Committee members will consist of the Chief Financial Officer (Chair), Executive Director of Human Resources, and Manager of Finance.

After some dialogue regarding the use of the word "Trustee" in the proposed Resolution, the following motion was offered:

Motion by Commissioner Louney, Seconded by Commissioner Alley, to forward the proposed resolution with an amendment to state "Trustee(s)" in the document to the full Board for consideration.

Action: Motion Carried

Public Comment

None

Other

None

Excused Absence

Motion by Commissioner Alley, Seconded by Commissioner Louney, to excuse Commissioner Ross from tonight's meeting.

Action: Motion Carried

Adjourn

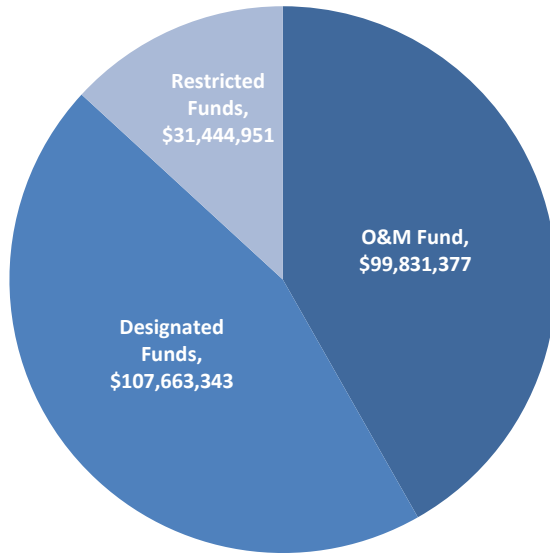
On Motion by Commissioner Alley, Seconded by Commissioner Louney, the meeting adjourned at 7:12 p.m.

Respectfully submitted
David Price, Acting Chair
Finance Committee

Financial Summary - September 2016



Cash



Total Cash: \$238,939,671

	Month End	Target
Days Cash on Hand	219	150-249
Credit Rating	AA-	AA-
Debt Service Coverage - Rating Agencies	2.22	2.00-2.49
Debt Service Coverage - Bond Covenants	3.08	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies target ranges are provided by Moody's as expected performance for a AA- rated electric utility with generation.

Debt Service Coverage - Rating Agencies - $\frac{\text{Projected Net Income} + \text{Depreciation Expense} + \text{Interest Expense} + \text{Fixed Obligations}^*}{\text{Debt Service} + \text{Fixed Obligations}}$

*Fixed obligations represent Belle River Debt Service

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	\$ 95,607,964	\$ 88,297,365	7,310,599	8%	\$ 89,172,256	\$ 6,435,708	7%
Wholesale	\$ 10,990,508	\$ 7,533,608	3,456,899	46%	\$ 8,880,637	\$ 2,109,871	24%
Total Revenue	\$ 106,598,471	\$ 95,830,973	10,767,498	11%	\$ 98,052,894	\$ 8,545,578	9%
Operating Expenses	\$ 78,604,084	\$ 77,784,586	819,498	1%	\$ 74,415,328	\$ 4,188,756	6%
Non Operating	\$ (9,600,677)	\$ (8,762,581)	(838,096)	10%	\$ (8,335,723)	\$ (1,264,954)	15%
Net Income	\$ 18,393,711	\$ 9,283,807	9,109,904	98%	\$ 15,301,843	\$ 3,091,868	20%

Projected FY 2017 Net Income \$ 16,071,168

Budget Status YTD

O&M Budget YTD (excluding fuel)

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 139,241,533	\$ 31,775,615	\$ 33,565,089	(1,789,474)	-5%
% of Approved Budget	23%	24%		

Capital Budget YTD

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 60,817,651	\$ 8,542,319	\$ 13,718,465	(5,176,146)	-38%
% of Approved Budget	14%	23%		

Adjusted Net Income Return

Actual YTD	YTD Budget	Target
3.20%	1.80%	4.81%

Adjusted Net Income Return - Actual YTD Net Income increased for interest expense Net Fixed Assets + Inventory

Financial Summary - September 2016



Ratios

Operating Ratio

O&M Expense	\$ 68,088,515	=	0.64	APPA Median	0.71
Revenue	\$ 106,598,471				

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

Current Ratio

Current Assets	\$ 234,174,085	=	4.89	APPA Median	2.07
Current Liabilities	\$ 47,873,593				

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 408,113,581	=	0.40	APPA Median	0.61
Total Assets	\$ 1,022,597,766				

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

Days' Sales Outstanding

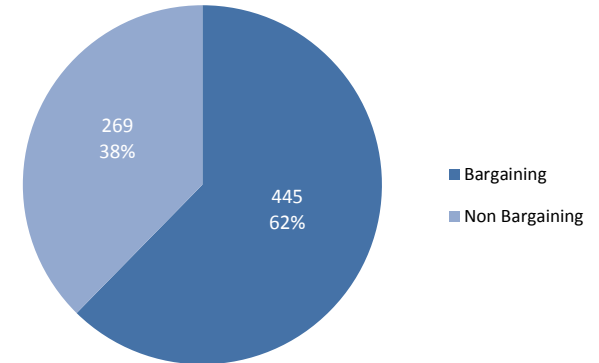
Accounts Receivable	\$ 28,237,430	=	0.81	Prior Year	23
Average Sales	\$ 34,962,824	X	30		
				24	Days

Bad Debt

Actual YTD	YTD Budget	Over/(Under)	% of Revenue	APPA Median
\$440,027	\$284,104	\$155,923	0.41%	0.28%

Employee Data

Employee Count YTD	714
Budget YTD	755
Over (Under) #	(41)
Over (Under) %	-5.4%
Prior YTD	720
Difference	-6
Temporary Employee YTD	33



Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	\$ 12,585,274	\$ 13,039,998	\$ (454,724)	-3.5%	\$ 12,380,003	\$ 205,271	1.7%
Overtime	\$ 2,002,096	\$ 1,522,303	\$ 479,793	31.5%	\$ 1,705,522	\$ 296,574	17.4%
Total	\$ 14,587,370	\$ 14,562,301	\$ 25,069	0.2%	\$ 14,085,525	\$ 501,845	3.6%
Total Hours Worked	308,637				313,533		
Labor/Hours Worked	\$ 47.26				\$ 44.93		

APPA Median	\$ 44.13
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APPA Median data is based on 2014 numbers and does not reflect subsequent labor inflation.

Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	\$ 2,715,458	\$ 2,602,064	\$ 113,394
RX	\$ 850,085	\$ 1,020,466	\$ (170,381)
Dental	\$ 289,199	\$ 293,883	\$ (4,684)
Life	\$ 80,789	\$ 92,646	\$ (11,857)
FICA	\$ 1,076,282	\$ 1,129,540	\$ (53,258)
Other	\$ 372,533	\$ 520,623	\$ (148,090)
Total	\$ 5,384,347	\$ 5,659,222	\$ (274,875)

RESOLUTION #2016-11

PROPOSED RESOLUTION

**Capital Project Budget Correction and Exceedance Approval:
Project PG-40020-15 Radio Upgrades**

WHEREAS, Lansing Board of Water & Light's (BWL) Policy 15-02, entitled Capital Project Exceedance Approval requires BWL Board of Commission approval for specific capital projects that are expected to exceed their previously approved budget by both 15% and \$200,000 prior to completion of the project; and

WHEREAS, the original approved budget for the Capital Project PG-40020-15 Radio Upgrades project in FY2015 was \$653,447; and

WHEREAS, the FY2016 approved budget incorrectly provided a budget of \$533,000; and

WHEREAS, the projected final total cost for the project is \$793,000; and

WHEREAS, BWL staff and management reviewed the project cost in detail, which includes but is not limited to the correction of prior fiscal year input error, rationale and circumstances for the increased budget projection; and

WHEREAS, BWL staff and management recommends that the Capital Project PG-40020-15 Radio Upgrades be completed despite the projected increased cost; and

WHEREAS, BWL staff and management recommends that the Finance committee review and approve with a recommendation of support to the BWL Board of Commissioners at the November 15, 2016 full board meeting.

**STATUS OF MANAGEMENT RESPONSES TO AUDITS
OCTOBER 2016**



In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
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Open Issues:

12	Record Retention	Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.	March 2014	Human Resources	I-9 forms are on file for all active employees. An appropriate retention schedule for the asbestos bills of lading was determined and updated as part of the overall review of the Record Retention Schedule. An updated schedule was approved by the BWL Committee of the Whole on 3/8/16. BWL filed for State of Michigan approval on 4/14/16. State Administrative Board review is currently in process, with 1 of 2 preliminary approvals obtained to date. Final approval expected by 12/31/16.
13	Record Retention	The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.	March 2014	Enterprise Content Management	Enterprise Content Management has reviewed the existing Record Retention Schedule with the appropriate departments and cataloged all proposed revisions. An updated schedule was approved by the BWL Committee of the Whole on 3/8/16. BWL filed for State of Michigan approval on 4/14/16. State Administrative Board review is currently in process, with 1 of 2 preliminary approvals obtained to date. Final approval expected by 12/31/16.
17	Close the Books	The Internal Auditor recommended that consideration be given to the use of a general accounting manual.	August 2014	General Accounting	A General Accounting Procedure Manual is being developed, with expected completion by 12/31/16.
27	Management of Mobile Devices	The Internal Auditor recommended encrypting data on all remaining laptops and smart phones.	Sept 2015	Information Technology	IT has encrypted the laptops used by field personnel and established user guidelines. Guidelines instruct BWL users to encrypt sensitive data on their own mobile devices. Currently underway are efforts for data classification. Software with remote management capabilities for mobile devices has been researched and narrowed to three products, one of which will be procured by 11/30/16 and installed by 1/31/17.
29	Management of Mobile Devices	Internal Audit recommended further consideration of procuring software with remote cleaning capabilities.	Sept 2015	Information Technology	Software with remote management capabilities for mobile devices has been researched and narrowed to three products, one of which will be procured by 11/30/16 and installed by 1/31/17.
33	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	The next stress test with our new vendor is scheduled for 11/1/16 with results expected to be available by 11/30/16. Completion expected by 12/31/16.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
34	Training & Development	Internal Audit supports plans for a new database for tracking training and use of standardized criteria for periodic training course review and training of trainers, on an organization-wide basis.	Dec 2015	Organizational Training & Development	LMS was implemented in February 2016 and training on use of the new system, begun immediately, continues to be in the process of being rolled out, at a slower pace than originally anticipated, due to delays in employees regaining the internet access required to access the system following the cyber incident. Completion, originally anticipated to be 6/30/16, is now expected by 12/31/16.
37	Hiring Process	Internal Audit has requested that an all-encompassing hiring policy be documented.	May 2016	Human Resources	An additional Board policy, one which addresses BWL hiring standards in their entirety, will be drafted by 12/31/16.
38	Hiring Process	Internal Audit recommended updating a hiring checklist, documenting rationale for selected hires, and storing job files in electronic form.	May 2016	Human Resources	Management will update the hiring checklist, document rationale for selected hires, and store job files electronically by 12/31/16.
42	Selected CRT-MPSC-BWL Recommendations	The Internal Auditor recommended annual updates to the Emergency Operations Plan.	May 2016	Emergency Management	There are 45 separate Emergency Operations Plans, all of which have either been updated during 2016 or are scheduled to be updated by 12/31/16. The intention is to continue to keep them updated, on an annual basis.
43	Selected CRT-MPSC-BWL Recommendations	The Internal Auditor recommended formally tracking the corrective actions resulting from restoration exercises.	May 2016	Emergency Management	Formal tracking of corrective actions resulting from an October 2016 restoration exercise is underway.
E-1 <i>NEW</i>	IT Assessment (by External Auditors)	Baker-Tilly's management letter officially noted that all users of financial applications should have a unique ID and generic, shared, temporary and system accounts should be removed. If a system account cannot be removed, it should be disabled.	Sept 2016	Information Technology	Generic user IDs for financial applications will be disabled by 11/30/16. For any generic IDs which cannot be disabled by that date, an explanation will be documented, along with a remediation plan.
E-2 <i>NEW</i>	IT Assessment (by External Auditors)	It was noted that network and financial application passwords settings need strengthening, including establishing requirements that passwords be changed every 90 days, be a minimum length of 8 characters, and include special characters. In addition, 8 prior passwords should be remembered and user accounts should be locked after 3-5 failed login attempts.	Sept 2016	Information Technology	Enhancement of network password settings was completed on 10/24/16. An evaluation of the feasibility and extent of enhancements to password settings for financial applications will be complete by 11/30/16.
E-3 <i>NEW</i>	IT Assessment (by External Auditors)	Management letter indicated that user account access should be reviewed annually by management for appropriateness, following the least privilege principle, with documentation of reviews retained.	Sept 2016	Information Technology	An annual review has been added to IT's schedule, with the anticipated process and annual review date expected to be established by 1/1/17.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
E-4 <i>NEW</i>	IT Assessment (by External Auditors)	Baker-Tilly recommended a cyberattack awareness program with surprise penetration testing.	Sept 2016	Emergency Management / Information Technology	Employees have been scheduled to undergo annual online cybersecurity awareness training. In addition, a new monthly live training program has been developed, which IT employees began on 10/25/16 and which the remainder of employees are expected to begin on 12/1/16.
E-5 <i>NEW</i>	IT Assessment (by External Auditors)	Baker-Tilly noted that the Windows 2003 operating system on which the DP250 database runs needs upgrading.	Sept 2016	Information Technology	Project scoping for the Mainframe Upgrade is almost complete, with project completion expected by 3/31/17.

Closed Issues (since June 2016 report):

30	Management of Mobile Devices	Internal Audit recommended disabling data ports on mobile devices where necessary.	Sept 2015	Information Technology	A large portion of the laptop user community is currently using USB ports to connect many legitimate business-related devices (mice, keyboards, printers, etc.). It has been determined that disabling these ports would be disruptive and they should, therefore, be left active. Antivirus software currently in use serves to mitigate the associated risk.
39	IT Change Management	Internal Audit recommended IT change management policy and procedures be documented.	May 2016	Information Technology	The IT change management process has been refined and a standard form and workflow developed. A Change Advisory Board is following ITIL guidelines.
41	IT Change Management	Internal Audit recommended specifically addressing emergency IT changes in the IT change management process.	May 2016	Information Technology	IT has defined what an emergency change is considered to be, documented a process flow, and developed a corresponding training plan and written guidelines.



Internal Audit Status Report

Presented by:
Phil Perkins, Director of Internal Audit
Finance Committee Meeting
November 2016

Overview

- Current Audit Progress Report
- Remaining FY 2017 Audit Plan
- Other Items

Current Audit Progress Report

Engagements Completed in FY 17:

1. Surprise Cash Count #1.
2. Time Reporting Review #1.

Engagements in Progress:

1. Billing Audit (FY 16) – draft audit report issued for management responses; anticipate final report later this month.
2. Performance Evaluation/Compensation/Merit Pay Audit (FY 17) – fieldwork complete; draft audit report to be issued shortly.
3. Collections Audit (FY 17) – in progress, about 33% complete. Anticipate completion in January 2017.
4. Post-Cyber Incident Audit (FY 17) – just underway; anticipate completion in February 2017.
5. Training Audit Follow-up – just underway; anticipate completion in January 2017.

Remaining FY 2017 Audit Plan

Audits:

1. Payroll Management
2. New Service Order Management – Water
3. IT Help/Service Desk Management – to be deferred and replaced with another IT-related audit.
4. Follow-up – Hiring Process Audit

Other Engagements:

1. Vehicle Time Reporting Review
2. Surprise Cash Count #2
3. Time Reporting Review #2

Other Items

Internal Auditor Professional Development:

- On target to meet professional education requirements for certifications:
 - CPA
 - CIA
 - CISA
- Preparing for examination to attain Fundamentals of Cybersecurity certification.

Quality Assurance Improvement Program:

- An Internal Quality Review is being performed in preparation for the required 5-year External Peer Review.
- Anticipate the External Peer Review to occur in April or May 2017.