



**LANSING BOARD OF WATER & LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
January 10, 2023 – 6:00 P.M.
Board of Water & Light Headquarters – REO Town Depot
1201 S. Washington Ave., Lansing, MI 48910**

BWL full meeting packets and public notices/agendas are located on the official web site at <https://www.lbwl.com/about-bwl/governance>.

AGENDA

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of November 8, 2022 **TAB 1**
- 2. November YTD Financial Summary..... **TAB 2**
- 3. Retirement Plan Committee (RPC) Updates **TAB 3**
- 4. Bi-Annual Internal Audit Open Management Responses Update **TAB 4**
- 5. PA-95 Audit Report **TAB 5**

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
November 08, 2022

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 on Tuesday, November 8, 2022.

Finance Committee Chairperson Dusty Horwitt called the meeting to order at 6:45 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Dusty Horwitt, Semone James, David Price, and Sandra Zerkle. Also, present: Commissioners Tony Mullen, and Tracy Thomas; and Non-Voting Commissioners: Douglas Jester (East Lansing), and Larry Merrill (Delta Township).

Absent: None.

The Corporate Secretary declared a quorum.

Public Comments

There were no public comments.

Approval of Minutes

Motion by Commissioner James, **Seconded** by Commissioner Zerkle, to approve the Finance Committee Meeting minutes of September 13, 2022.

Action: Motion Carried.

September YTD Financial Summary

CFO Shawa presented the September YTD Financial Summary. The Wholesale Income Actual vs Budget YTD is positive by 100% due to higher market prices and also affects the Net Income. O&M Budget YTD is 18% underspend is due to vacancies and is normal in the first quarter. Capital Budget YTD is positive by 61% due to a carryover payout in the first quarter for a CTG planned outage. The Debt to Total Assets median is not being met due to nonreceipt of unpaid debt. Benefits Cost is low due to receipt of stop loss payments and lower claims.

Capital Project Summary

CFO Shawa presented the Capital Project Summary. The difference between Projected and Budget totals is due to carryover of deferred or delayed projects due to supply chain issues.

Commissioner Zerkle asked Ms. Shawa to identify the carryover projects on the Summary. CFO Shawa responded that she would provide that information to the Commissioners and put those items on future Capital Project Summaries.

CFO Shawa responded that the Steam Annuals Variance was due to I-496 construction and a project exceedance request is being made for it.

Steam Annuals Capital Project Exceedance - Resolution

CFO Shawa requested approval of the Steam Annuals Capital Project Exceedance which is a \$1.4 million opportunity in accordance with the I-496 construction. GM Peffley stated that the project is being moved forward to be completed before the I-496 construction is completed so that ground will not need to be torn up. The project will delay the I-496 construction by one month.

Commissioner James requested that it be stated in the Steam Annuals Capital Project Exceedance Resolution that it is an opportunity. Commissioner Price requested amending the resolution and adding another WHEREAS section because of emergent need due to I-496 construction.

Motion by Commissioner James, **Seconded** by Commissioner Price, to approve the Resolution for the Steam Annuals Capital Project Exceedance, with the addition of the project exceedance being an opportunity, and forward it to the full Board for consideration.

CFO Shawa will amend the Resolution and submit it to the full Board for consideration at the November 15, 2022 Regular Board Meeting.

GM Peffley provided Commissioner Jester with an update on the status of switching from steam to hot water. A new contract is being negotiated with General Motors for converting steam to hot water, and 10.5 miles of steam mains and steam barrels are being considered for replacement. The first conversion would be at the Grand River Assembly Plant.

Action: Motion Carried.

Retirement Plan Committee (RPC) Update

CFO Shawa reported on the investment and administrative activity from the Retirement Plan Committee. Two in person question and answer sessions will be held at BWL on November 28th and December 5th and a virtual session will be held on December 12th.

Internal Audit Department Update

Internal Auditor Frank Macciocca provided the Internal Audit Department Update.

Other

There was no other business.

Adjourn

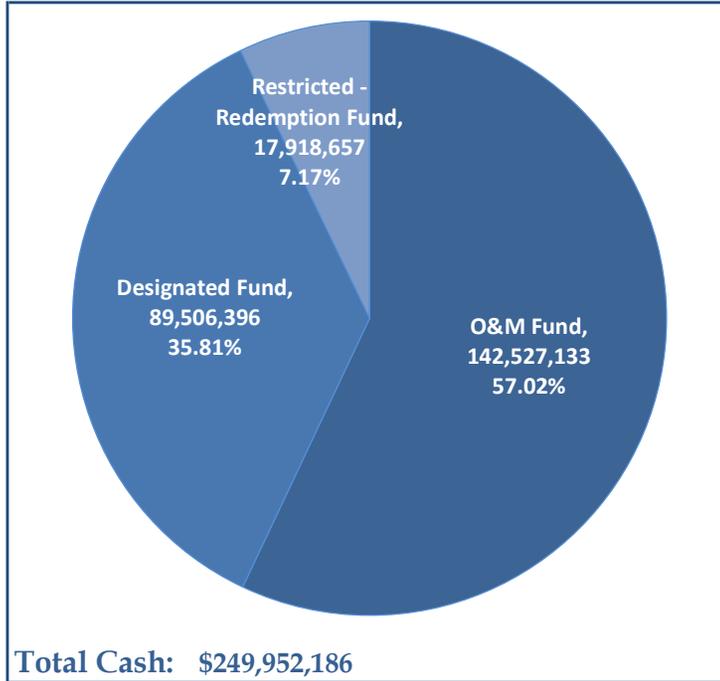
Chairperson Dusty Horwitt adjourned the meeting at 7:25 p.m.

Respectfully submitted
Dusty Horwitt, Chairperson
Finance Committee

Financial Summary - November 2022 - FY23



Cash



Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 147,908,102	\$ 140,697,030	7,211,073	5%
Wholesale	\$ 53,965,936	\$ 33,326,758	20,639,177	62%
Total Revenue	\$ 201,874,038	\$ 174,023,788	27,850,250	16%
Operating Expenses	\$ 163,262,553	\$ 146,446,421	16,816,132	11%
Non Operating Income/(Exp)	\$ (22,714,415)	\$ (20,456,707)	(2,257,708)	11%
Net Income	\$ 15,897,070	\$ 7,120,661	8,776,409	123%
FY 2023 Budgeted Net Income		\$ 5,867,605		

Budget Status YTD

O&M Budget YTD (excluding fuel)

FY 2023 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 162,258,289	\$ 61,422,690	\$ 66,988,349	\$ (5,565,659)	-8%
% of Approved Budget	38%	41%		

Capital Budget YTD

FY 2023 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 71,804,326	\$ 28,447,807	\$ 23,510,321	\$ 4,937,486	21%
% of Approved Budget	40%	33%		

	Month End	Target
Days Cash on Hand	230	166
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	2.41	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

Return on Assets

Actual YTD	Budget YTD	Target
2.29%	1.57%	4.01%
Return on Assets = $\frac{\text{YTD Net Income} + \text{YTD Interest Expense}}{\text{Net Fixed Assets} + \text{Inventory}}$		

Financial Summary - November 2022 - FY23



Ratios

Operating Ratio

<u>Q&M Expense</u>	\$ 133,515,212	=	0.66	APPA Median 0.68
Revenue	\$ 201,874,038			

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

Current Ratio

<u>Current Assets</u>	\$ 268,397,772	=	3.16	APPA Median 1.47
Current Liabilities	\$ 85,002,169			

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

Debt to Total Assets

<u>LT Debt + Accrued Liabilities</u>	\$ 973,315,037	=	0.58	APPA Median 0.54
Total Assets	\$ 1,686,117,033			

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

Days Sales Outstanding

Average Accounts Receivable	\$ 37,875,108	x 30 =	36	Prior Year 34
Sales	\$ 33,069,751			

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

Bad Debt

<u>12 Month Rolling Bad Debt Exp</u>	\$ 1,057,977	=	0.25%	Prior Year 0.65%
12 Month Rolling Revenue	\$ 429,509,275			

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

Employee Data

Employee Count

Employee Count YTD	713
Budget YTD	756
Over/(Under) #	(43)

Full Time Equivalent	21
Temporary Employees	

Legend: ■ Bargaining, ■ Non Bargaining

Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 28,378,645	\$ 30,039,594	\$ (1,660,949)	-5.5%	\$ 53.86
Overtime	\$ 3,197,049	\$ 3,327,047	\$ (129,998)	-3.9%	
Total	\$ 31,575,694	\$ 33,366,641	\$ (1,790,947)	-5.4%	

Total Hours Worked	560,903
Labor \$/Hours Worked	\$ 56.29

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 5,922,962	\$ 8,007,419	\$ (2,084,457)
Rx	\$ 1,362,535	\$ 1,549,327	\$ (186,793)
Dental	\$ 520,759	\$ 584,740	\$ (63,981)
Life	\$ 166,003	\$ 237,085	\$ (71,082)
FICA	\$ 2,255,194	\$ 2,261,913	\$ (6,720)
Other	\$ 400,588	\$ 741,529	\$ (340,941)
Total	\$ 10,628,040	\$ 13,382,013	\$ (2,753,973)

* All APPA Median Numbers Are For Utilities With Greater Than 100,000 Customers As Obtained From The Most Recent "APPA Financial And Operating Ratios Of Public Power Utilities Report" Published In 2022.



RETIREMENT PLAN COMMITTEE (RPC)

Investment Activity Updates for Finance Committee: 1/10/2023

Investment Activity Update

- Defined Benefit Plan (DB) & Voluntary Employee Benefit Administration Plan (VEBA)
 - DB & VEBA Investment Manager Changes
 - Loomis, Sayles & Company and Vanguard Russell 1000 Value will be replaced with Northern Trust S&P 500 Index Fund
 - In progress, Northern Trust fund documents are under review
 - VEBA - Portfolio Rebalancing – Real Assets
 - In progress, real assets are less liquid than other asset classes and have high current demands for liquidation due to outperformance relative to other asset classes; rebalancing is likely to continue each quarter through calendar year 2023 as liquidity becomes available

Investment Activity Update

- Defined Contribution 401(a) & Deferred Compensation 457(b) Plans
 - Fund Change – AMG Times Square Small Cap Growth has been replaced with Mass Mutual Select Small Cap Growth
 - Change completed December 16, 2022
 - Fund Share Class Changes – MFS Value and Fidelity Contrafund have changed share classes
 - Change completed December 16, 2022



RETIREMENT PLAN COMMITTEE (RPC)

Administrative Activity Updates for Finance Committee: 1/10/2023

Administrative Activity Update

- **Defined Benefit Plan (DB) & Voluntary Employee Benefit Administration Plan (VEBA)**
 - **DB & VEBA Participant Communications**
 - As a reminder, changes are being made for administrative compliance; changes relate to how payments will appear in participant's accounts, how payments will be reported for tax purposes, and what forms and substantiation will be required for payment.
 - Letters have been sent and three informational sessions have been held at the depot (one of which offered the option of virtual attendance) to walk through these changes for the plans for calendar year 2023.
 - One more informational session is planned for January.
 - Human Resources continues to work with participants to ensure collection of all necessary documentation for the calendar year 2023 payments.
- **Defined Contribution & Deferred Compensation Plans**
 - No significant new activity.

Glossary

- **DB** Defined Benefit Plan - The plan is a noncontributory single-employer defined benefit pension plan for employees of the BWL. The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a defined contribution plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in this plan were required to make an irrevocable choice to either remain in this plan (defined benefit) or move to the newly established defined contribution plan. Those participants who elected to move to the defined contribution plan received lump-sum distributions from this plan that were rolled into their accounts in the newly established defined contribution plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan.
- **VEBA** Voluntary Employee Benefit Administration - The Post-Retirement Benefit Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL.
- **DC 401(a)** Defined Contribution Plan - The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1, 1997. The Defined Contribution Plan operates as a money purchase pension plan and meets the requirements of Sections 401(a) and 501(a) of the IRC of 1986, as amended from time to time. For employees hired before January 1, 1997, the BWL is required to contribute 15.0% of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 9.5% of the employees' compensation. In addition, the BWL is required to contribute 3.0% of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5% of the employees' compensation for all nonbargaining employees. No participant contributions are required.
- **DC 457(b)** Deferred Compensation Plan - The Deferred Compensation Plan covers substantially all full-time employees. The BWL contributes \$1,000 on behalf of each participant as of the first pay period of each year. Additionally, the BWL will provide a 100% match for each participant's contributions annually, up to \$1,500.
- **ASA** Administrative Services Agreement – The administrative services agreement is an agreement between the BWL and the VEBA trust regarding the payment of VEBA plan benefits. The agreement calls for the BWL to handle the processing of benefit payments and allows for the reimbursement for payment from the VEBA trust if certain conditions are satisfied. These conditions include both funding status and investment performance measures.

Follow-up to Internal Audit Findings & Recommendations

Finance Committee 1/10/2023



Hometown People. Hometown Power.

Resolution #2018-07-05

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

Internal Audit

- Perform audits, report findings, provide recommendations, records management responses, verify completion of corrective actions

Management

- Responds to findings and recommendations, identify and execute appropriate and timely corrective actions

Follow-up of Open Management Responses to Audit Findings

- An open action item list is maintained for progress tracking by Internal Control.
- Management reports progress to the Finance Committee semi-annually (Jan. & July)

Audit Finding & Recommendation Update

- PA 95 Audit

- Pending issuance of final report.

Internal Control Risk Assessment Review

Finance Committee 1/10/2023



Hometown People. Hometown Power.

Plante Moran Financial Risk Assessments

Internal Control hired Plante Moran to perform Financial Risk Assessments to confirm, update, and identify the design of controls in 17 key financial areas.



Time period under review July 1, 2020, through June 30, 2021.



Walkthrough, test of design, operating effectiveness testing, and remediation strategy of controls was performed.

Plante Moran Scope & Key Financial Areas

1. Risk Assessment
2. Fraud, waste, analyses and Test of Internal Control Design
3. Test of Internal Control Operating Effectiveness
4. Remediation Strategy

- Capital Assets
- Contingencies
- Equity
- Expenditures & AP
- Financial Close & Financial Reporting
- Inventory
- Record & Monitor Debt
- Revenue & Accounts Receivable
- Taxes
- Treasury & Cash
- Checks & Check Handling
- Governance
- Physical Controls
- Vendor Management & ACH Payments
- Data Analytics
- Information Technology
- Human Resources & Payroll Operations

Why are Risk Assessments Important?

Identifies and assesses both the likelihood and potential impact of various risks to the organization.



Internal Controls are identified and evaluated to determine how adequate controls are in reducing risk to ensure residual risk is at a manageable level.



External and Internal Audits utilize risk assessments to prioritize and focus activities on key risks during audits.

Baker Tilly

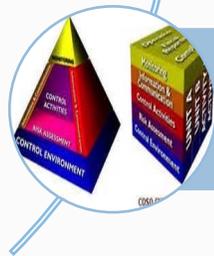
Board of Water and Light – City of Lansing Audit Overview



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

* Slide from Baker Tilly 2022 Audit Presentation, September 2022 Finance Committee Meeting.

Key Terms

- **Control Deficiency-** Organization internal controls that are designed, implemented, or operate in a way that cannot prevent, detect, or mitigate risk.
- **Controls Under Development-** Controls that are yet to be developed and implemented within the control environment.
- **Remediation-** Correction of control deficiencies.

Risk Assessment Results

Key Financial Areas	Control Deficiencies	Controls Remediated
Accounting	14	14
Finance	5	5
Physical Controls	1	1
HR & Payroll Operations	2	2
Inventory	4	4
Information Technology	1	1
Accounts Payable	8	8
AR & Revenue	3	3
Total	38	38

Risk Assessment Results

Key Financial Area	Controls Under Development	Total Remaining	Completed %
AR & Revenue	12	9	25%

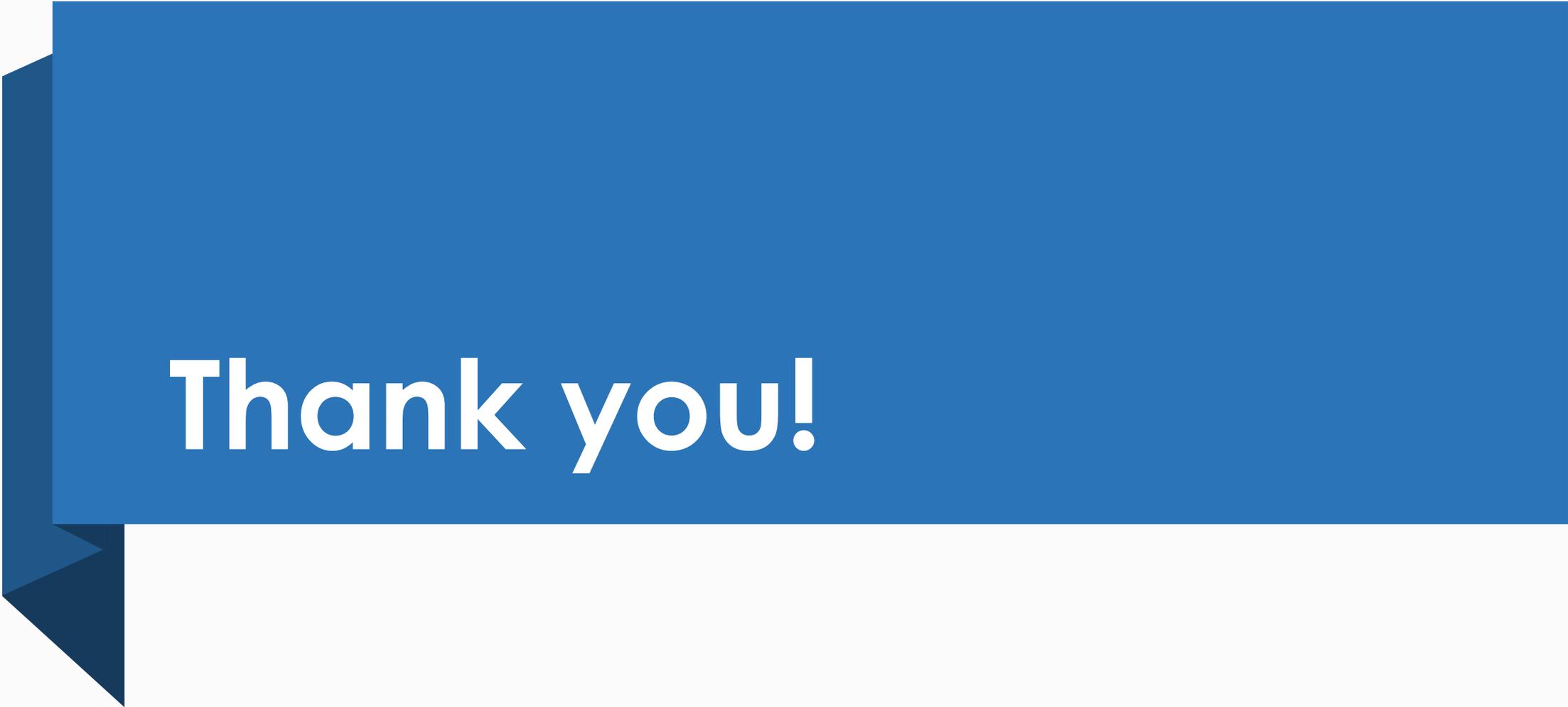
Next Steps

9 Remaining Controls Under Development are expected to be developed and implemented.



Plante Moran to test control deficiencies and controls under development.

* To be completed by calendar year-end 2023.

A blue ribbon graphic with a 3D effect, featuring a white shadow on the left side. The text "Thank you!" is written in a white, bold, sans-serif font across the center of the ribbon.

Thank you!



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January 4, 2023

Mr. Dusty Horwitt, Esq., Commissioner and Finance Committee Chair, the Board of Commissioners Finance Committee, and the Board of Commissioners Lansing Board of Water and Light (BWL)
City of Lansing, Michigan

Internal Audit Report FY 2023-2

Background and Authority

The purpose of this internal audit is to learn more about the rationale behind the Customer Experience Department's decision to recommend to the Board of Commissioners that the BWL change course and end the Winter Heating Season Shutoff Moratorium beginning next heating season 2023-2024.

Public Act 615 of 2012 established the Michigan Energy Assistance Act (MEAA) requiring the Michigan Department of Health and Human Services (MDHHS) to establish and administer the Michigan Energy Assistance Program (MEAP).¹ This MEAP Program is statewide and provides electric energy assistance and self-sufficiency services to eligible low-income households. It works in conjunction with Public Act 95 of 2013 (Act 95) which created the Low-Income Energy Assistance Fund (LIEAF).² Act 95 charges the MDHHS with expending money from LIEAF. The Department of Human Services, in consultation with the Michigan Public Service Commission (MPSC), shall ensure that all money collected for the fund from a geographic area is returned, to the extent possible, to that geographic area.³ The MPSC approves annually the low-income energy assistance funding factor to support the LIEAF.⁴ This funding shall not exceed \$50 million annually.⁵ The funding factor is a "nonbypassable" surcharge added to each retail billing meter not to exceed \$1.00 with \$.90 per meter per month being set for September 2022 through August 2023 billing months.⁶ Utilities who have opted out of collection of the surcharge, including BWL, shall not shut off service to any residential

¹ 2012 Act No. 615, Public Acts of 2012, Mich. Pub. Acts (page 315).

² 2013 Act No. 95, Public Acts of 2013, Mich. Pub. Acts (page 39).

³ Id.

⁴ Michigan Energy Assistance Program, Retrieved November 7, 2022 from the World Wide Web: <https://www.michigan.gov/mpsc/consumer/energy-assistance.html>.

⁵ 2013 Act No. 95, Public Acts of 2013, Mich. Pub. Acts (page 39).

⁶ In the Matter, on the Commission's own motion, to implement the provisions of 2013 PA 95, Case No. U-17377, State of Michigan Public Service Commission, July 27, 2022, Retrieved November 7, 2022 from the World Wide Web: <https://www.michigan.gov/mpsc/consumer/energy-assistance.html>.



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customer from November 1, 2022 to April 15, 2023 for nonpayment of a delinquent (or non-pay) account.⁷

In further support, Public Act 87 was signed by Governor Gretchen Whitmer on September 30, 2019, extending MEAP for four years until September 30, 2023. On July 27, 2022, the MPSC, in Case No. U-17377, adopted a funding factor of 90 cents per meter per month for all Michigan electric utilities that have opted to participate in the funding of the LIHEAF (Surcharge) effective for billing months September 2022 - August 2023 billing months.

For 2023 LIEAF, BWL has continued its long-standing position of opting out, but has recommended to the Board to opt-in for 2024 LIEAF using a slide presentation entitled *PA95 Presentation Final v2 6.30.22* to support its opt-in recommendation to the Board of Commissioners Finance Committee during its meeting on July 12, 2022. The reason why BWL has not opted in previously is due to Management's concern that excessive demand for any available funds would have the effect of crowding out BWL customers in need from receiving a fair share of funds available. Since BWL has opted out of collection of the Surcharge, BWL shall not shut off service to any residential customer from November 1, 2022 to April 15, 2023 for nonpayment of a delinquent account. Opting in for 2024 LIEAF means that BWL customers in need will be eligible for allocated funds beginning November 1, 2023.

This internal audit began on October 3, 2022, with a Kick-Off Meeting with the Customer Experience Department (Customer Experience) attended by Customer Experience Executive Director, Stephen Serkaian and his direct reports, Bob Perialas, Manager Enterprise Customer Experience; Deanna Sparks, Customer Operations Manager; and Breina Pugh, Public Relations & Marketing Interim Manager. The internal audit work focused on gathering information, data, research, and analysis from Customer Experience to understand more fully why it recommended that opting into PA-95 will benefit BWL and its customers after a long history of no Winter heating season shut-offs.

Governance and Internal Audit Process

The BWL is an administrative board under the Charter of the City of Lansing, Michigan.⁸ Under what is essentially an enabling act, BWL, through the Board of Commissioners, has exclusive executive and policymaking responsibilities necessary to its proper operation. There are eight (8) voting Commissioners appointed by the Mayor of the City of Lansing. The Board of Commissioners has the full and exclusive management of the water, heat, steam, and electric services of the BWL. These services are to be

⁷ **Id.**

⁸ **City of Lansing City Charter.**



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managed in a manner consistent with best practices.⁹ In common parlance, the BWL is a municipal utility with public sector, quasi-governmental characteristics.

The governing body for the BWL is its Board of Commissioners (or Board). As stated earlier, the Board provides accountability through its oversight role of BWL Management for the benefit of its constituent stakeholders. Internal Audit is the Board's resource. Internal audit performs an assurance as well as a supporting advisory role to the Board as it addresses the strengths and weaknesses of BWL Management.

The Internal Audit Department at BWL performs its work independently and objectively primarily under the International Standards for the Professional Practice of Internal Auditing (or IIA Standards) as well as other recognized auditing standards such as the generally accepted government auditing standards (GAGAS) under the Governmental Accounting Standards Board (GASB) and those standards promulgated by the Public Company Accounting Oversight Board (PCAOB). Internal Audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.¹⁰

The internal audit function for the BWL is self-contained as an integral part of the BWL itself. Internal audit is an in-house activity function analogous to an in-house lawyer or counsel. At BWL, it is housed under the same BWL roof as the auditee departments being audited. The internal audit function for the BWL is not part of the City of Lansing City Council, for example. This makes it unlike the Michigan Office of the Auditor General (OAG) that is appointed by the Legislature and is part of the legislative branch of government charged with auditing separate executive and other branch agencies of Michigan state government.¹¹

In performing its engagements, Internal Audit needs dependable sources of evidence. The IIA Standards require that an internal auditor gather sufficient, relevant, and reliable information in carrying out its audit work and in formulating conclusions and recommendations. More specifically, under IIA Standards, internal auditors must identify, analyze, evaluate, and document sufficient, reliable, relevant, and useful information to achieve engagement objectives. In internal auditing, sufficient means enough evidence so that another auditor reviewing the information collected may be able to reach the same conclusions.¹²

The primary key to determining the sufficiency and relevance of evidence is how pure the source is. In many instances, the most objective source of evidence is that which

⁹ **Id.**

¹⁰ **International Standards for the Professional Practice of Internal Auditing (Standards)**, July 2017.

¹¹ **Office of the Auditor General**, Presentation by Laura J. Hirst, Deputy Auditor General, to the Michigan State University ACC 814 Advanced Auditing class on November 29, 2022.

¹² **International Standards for the Professional Practice of Internal Auditing (Standards)**, July 2017.



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the internal auditor gathers, directly and by observation, or as provided by an impartial objective third party. In contrast, any audit evidence provided by management needs to be validated and not just accepted as a given. This validation of audit evidence is achieved by having direct access to people, information, and data all of which are necessary to allow for the audit work to be performed to a degree where the internal auditor believes in the audit work product.

The sufficiency and reliability of the evidence gathered determines whether it can be credible enough to draw valid conclusions and make recommendations. This valid and useful evidence is at the core of what allows the internal auditor to provide genuine assurance to the governing body Board.

This Internal Audit Department has established a Code of Honor modeled after the Michigan State University Spartan Code of Honor.¹³ *As the BWL Internal Auditor, who is both licensed and certified, I will strive to uphold values of the highest ethical standard. I will practice honesty in my work, foster honesty in my colleagues, and take pride in knowing that honor is worth more than a paycheck. I will carry these values with me daily here at BWL to build personal integrity in all that I do.*

Findings and Analysis

Customer Experience Department's recommendation to change course and Opt-in to PA-95 funding was based on the following: recent changes in Act 95 to return the funds collected to the extent possible to the same geographic area where collected, increased availability of funding sources, successful resource fairs that brought in over \$2 Million, and upgrades to the CIS system.

During the initial stage of the audit process, Internal Audit observed a delay in receiving information. As the audit progressed, Customer Experience's response time improved significantly. This initial delay may have occurred due to the involvement of various subject matter experts called upon by the Customer Experience Department to assist them with providing the information. To reassure Internal Audit, Customer Experience stated that it absolutely provided all information in its possession regarding its PA-95 opt-in recommendation to the Board to Internal Audit during this audit process.

Customer Experience emphasized that its goal in recommending opting into PA-95 is to provide an ability for BWL customers who are struggling to pay their utility bills with maximum access to available funding sources.

¹³ **Spartan Code of Honor**, The Associated Students of Michigan State University (ASMSU), March 22, 2016.



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Key points regarding PA-95 include:

- Made a PA 95 Opt-In recommendation 2023-24 where Customers will end up avoiding shut-off for non-pay even with an end to the Winter Heating Season Shut-Off Moratorium for Non-Pay
- Opt-In decision - July 1, 2023
- Ends customer exclusion from MEAP and SER/LIHEAP funds
- At least \$1 million decrease in uncollectable accounts
- Prior to shut-off resuming BWL offers extended holds & flexible payment arrangements and connected customers behind on their bills to financial relief available in the community
- Success Story: \$2,283,580 was brought in to pay down past due utility bills from coalition partners 60 days following the resource fairs. Numbers for the second fairs in March are still coming in
- Risk of LIHEAF Not Returning to BWL Customers: More statewide providers than previously available to our customers; potential to receive greater than \$1 million in payments
- State Emergency Relief (SER) Fund: Up to \$1,439 per income eligible customer annually
- Michigan Energy Assistance (MEAP) Program: Up to \$3,500 per income eligible customer annually
- Customer Focus: Customer Assistance Coalition, Keeping on Together Fairs, Customer Experience Division
- Billing Change Programming: Upgraded CIS can handle billing changes
- 24/7 Customer-Initiated Real-Time Restoration
- Coming Soon: 3rd Party Payment Assistance Portal

Customer Experience remains optimistic in its projection that customers who have fallen behind with their payments are going to find necessary financial relief in a timely fashion to provide incremental cash flow to BWL. Customer Experience is open to discovering further how likely it will be for affected customers to access this financial relief in real-time, yet, indicated that predictive exercises, such as simulated pilot programs, are not permitted. Therefore, Customer Experience is faced with relying heavily on promotional and marketing events as a predictor which is understandable. It is clear to Internal Audit that Customer Experience has performed diligently in its efforts to forecast proactive customer service assistance for BWL customers in need. These customer assistance resource events include relief fairs and information dissemination through flyers, the



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BWL website, billboards, TV and radio ads, social media, the Connections newsletter, and spreading the word through coalition partners.

It remains unclear how Customer Experience knows, as indicated in its presentation materials to the Board, that "twice as many funds" will be available to BWL customers in need by opting into PA-95. Further, it remains unclear how much of a "positive impact" for customers there will be through an opt-in to PA-95. Lastly, it remains to be determined what impact this opt-in to PA-95 will have on improving BWL's bad debt financial position.

Conclusion and Recommendation

Overall, the information provided by Customer Experience supporting its decision to recommend to the Board to opt-in to PA-95 appears reasonable.

To the extent realistically possible, Customer Experience should review the requirements and application process required by various third-party payment assistance agencies to continue its proactive efforts to prepare for opting into PA-95. Internal Audit should conduct follow-up audit work in this area after the first PA-95 opt-in cycle concludes most likely around the May-June 2024 timeframe.

Sincerely,

A handwritten signature in black ink that reads "Frank Macciocca".

Frank Macciocca

Director, Internal Audit

cc: Dick Peffley, General Manager
cc: Stephen Serkaian, Customer Experience Executive Director
cc: LaVella Todd, Corporate Secretary

FM/gp



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Management Response

Management appreciates the time and effort that went into this audit and the ultimate conclusion that the recommendation to opt into PA 95 was reasonable.

Relative to Internal Audit's Findings and Analysis, Management provides the following response.

- a. *... Customer Experience is open to discovering further how likely it will be for affected customers to access this financial relief in real-time, yet, indicated that predictive exercises, such as simulated pilot programs, are not permitted.*
 1. Creating a simulated pilot program is not permissible under state law. PA 95 requires utilities to be "all in or all out." That is, utilities are not able to create a subset of customers that would be eligible to receive PA 95 payment assistance because they can't contemplate which customers will require payment relief; nor can utilities selectively charge a subset of customers the PA 95 'funding factor' – or the surcharge, that the BWL Board of Commissioners approved in its overall rate strategy vote on September 27, 2022. This vote included an increase to electric customers' monthly bills by up to \$1 per month that will fund the PA 95 assistance program. As we've previously stated, Management will assess the first year of opting into PA 95 as a so-called 'pilot program' and report back to the Board of Commissioners its recommendation on whether to continue opting into PA 95.

- b. *It remains unclear how Customer Experience knows, as indicated in its presentation materials to the Board, that "twice as many funds" will be available to BWL customers in need by opting into PA-95.*
 1. Opting into PA 95 will make approximately \$1 million available annually to BWL customers for payment relief raised through the funding factor added to every electric bill of up to \$1 per month. This will more than double the \$400,000 in annual assistance funds that BWL contributes to St. Vincent through the City of Lansing and is made available to BWL customers. Additionally, more state and federal funds will be open to BWL customers as a result of receiving a shut-off notice by opting into PA 95.



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c. *Further, it remains unclear how much of a “positive impact” for customers there will be through an opt-in to PA-95.*

1. Management demonstrated that opting into PA 95 will provide a “positive impact” for customers because ending the winter heating season shut-off moratorium will trigger regular shut-off notices making customers immediately eligible for PA 95 funding relief. This contrasts with customers accumulating six months of past due electric bills only to be shut-off for non-pay when the winter moratorium ends in April.

d. *Lastly, it remains to be determined what impact this opt-in to PA-95 will have on improving BWL’s bad debt financial position.*

1. Management agrees that it remains to be determined what impact opting into PA 95 will have on improving BWL’s bad debt financial position. However, it is important to remind Internal Audit that the primary goal of opting into PA 95 was not to reduce bad debt but to have a positive impact on customers so that they have access to additional utility payment relief that isn’t available currently.

Otherwise, Management agrees with Internal Audit’s Conclusion and Recommendation.

Thank you.