



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

AGENDA

March 9, 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=eb4523814816b781d6e68fc662d442021>

Event number: 132 820 5250

Event Password: ugPEpxWT833

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


Access code: 132 820 5250

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 January 12, 2021.....	TAB 1
2.	TABLED ITEM:	
	Internal Audit Charter	
	a. Current Internal Audit Charter	TAB 2
	b. Proposed Internal Audit Charter	TAB 3
	c. Internal Audit Charter Resolution	TAB 4
3.	January YTD Financial Summary	TAB 5
4.	Investment Policy Statement (IPS) for DC Plans	INFO ONLY
5.	External Auditor RFP Bid Award	
	a. Resolution.....	TAB 6
6.	Internal Audit Update	
	a. Status Report.....	TAB 7

b. Preliminary FY 2022 BudgetTAB 8
c. FY 2022 Budget Resolution.....TAB 9

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.*

**FINANCE COMMITTEE
Meeting Minutes
January 12, 2021**

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, January 12, 2021.

Event Address for Attendees:

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

Event Number for Attendees: 132 470 7852 Event password: Wb3epfSZC85

Audio conference: United States Toll +1-408-418-9388 Access code: 132 470 7852

Finance Committee Chair David Lenz, called the January 12, 2021, 6:00 p.m. Finance Committee meeting to order at 7:20 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 November 10, 2020.

Motion Carried by the following Roll Call Vote:

Yeas: Commissioners Lenz, Graham, Price, and Ross

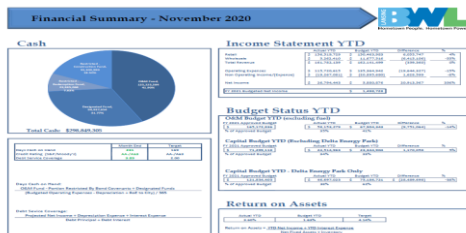
Nays: None

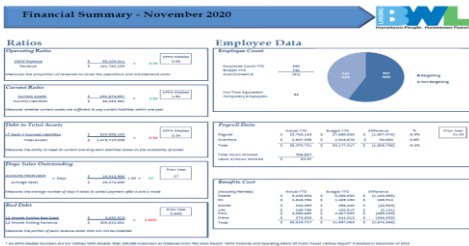
Tabled Items from July 21, 2020: REMAINED ON THE TABLE

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

November YTD Financial Summary

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





Chief Financial Officer Heather Shawa reported that Total Cash decreased as expected as bond proceeds were spent down for Delta Energy. Days Cash on Hand ended the month at 231. Debt Service Coverage was solid at 3.89. FYTD net income was \$26.8M, compared to a budget of \$5.8M. Net income is over budget due to under budget department spend and higher than budgeted revenues, relative to fuel and purchased power costs. Budget Status YTD was 14% underspent, a large factor being \$5M due to the VEBA plan market response.

YTD Capital Budget, excluding Delta Energy Park (DEP), was a higher spend due to a shift in timing of a boiler back up project at REO. Delta Energy Park, due to COVID19 and some timing from a large construction manager invoicing, was a little under spend but is expected to increase. DEP series bonds price had nine times the offerings compared to bonds to be sold.

Chair Lenz asked what the estimate of the COVID19 impact was on the DEP budget. Ms. Shawa and GM Peffley responded that the impact was \$10M and the project is still budgeted at \$495M.

YTD RoA is 3.60%, which is greater than budgeted YTD RoA of 1.69%, due to over budget net income, as a result of the factors noted above. Debt to Total Assets was a little high, as expected, due to bond issuance and the Bad Debt Ratio is high largely because the allowance was increased at the end of the year. The other three Ratios are beating the benchmark.

Employee count YTD is 690 and the budgeted YTD is 731. In Payroll Data the Labor \$/Hours Worked metric has remained in line with year prior. Overall YTD benefits costs are underbudget, due to BWL experiencing lower than expected medical claims.

Commissioner Goodrich asked how many positions are open that would be filled if there were qualified applicants. Ms. Shawa responded that there are about 25 positions for which HR is actively recruiting. GM Peffley responded that journeyman/lineworker and IT positions are more difficult to fill.

Bi-Annual Internal Audit Management Response Report Out

Finance Manager, Mr. Scott Taylor, presented the Bi-Annual Internal Audit Management Response Report Out. Mr. Taylor stated there are two open items and six items that have closed on the report. The first open item is a recommendation to standardize and centralize storage of purchasing documentation. The reason it is still open is that the training for this item is rolling out this January. The second open item is the development of a BWL Performance ERM Status Report. The reason it is still open is the remaining action of finalizing the measures of the report and it is expected to be completed by the end of February 2021.

Internal Control Program Overview

CFO Shawa introduced Ms. Elisha Franco, Senior Internal Control Analyst, who presented the Internal Control Program Overview. Ms. Franco described the function of the Internal Control Department as a means by which an organization’s resources are directed, monitored and measured to prevent and detect fraud and protect the organization’s resources. Ms. Franco explained the differences between the internal control function and the internal audit function. Ms. Franco provided the 2020-2021 work plan of reviewing remote work logs, customer projects, reconnection fees, and Fleet fuel operations.




Commissioner Thomas asked whether the Senior Internal Control Analyst position was a new position. Ms. Franco responded that it was a vacant position before she filled it.

Commissioner Ross asked Ms. Franco to provide insight to how internal control interacts with the internal auditor. Ms. Franco responded that internal control and internal audit meet biweekly and internal control provides information to management.

Chair Lenz asked if internal control has its own monthly schedule of items to monitor. Ms. Franco responded that there are quarterly items to be reviewed every year and additional items can be added by management. Chair Lenz also asked if additional staffing will be needed to conduct the reviews. Ms. Franco responded that currently staffing is sufficient.

Internal Audit Status Report

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

<u>Audit Progress Report</u>	<u>Audit Progress Report (Cont'd)</u>	<u>Other Items</u>
<p style="font-size: small;"><u>Audit Engagements and Activities in Audit Plan Currently Underway and/or Scheduled to Start</u></p> <ol style="list-style-type: none"> 1. Energy Risk Management – The final audit report was issued on 12/3/2020. 2. MPPA and MISD 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 being held, 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. Estimated Start Time: January 2021 Estimated Time of Completion: March 2021 	<p style="font-size: small;"><u>Audit Engagements and Activities in Audit Plan Currently Underway and/or Scheduled to Start (Cont'd)</u></p> <ol style="list-style-type: none"> 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) <p style="font-size: x-small;"><i>Note: Estimated Start and Completion Times of All Engagements Listed Above Are Subject to Change.</i></p>	<ol style="list-style-type: none"> 1. Update on Ongoing Education and Certification of IA Staff
 Finance Committee Meeting 1/12/2021 3	 Finance Committee Meeting 1/12/2021 4	 Finance Committee Meeting 1/12/2021 5

Commissioner Zerkle asked if additional audit personnel have been approved recently. Mr. Lewis responded that IT audit consultants were approved last year for a vulnerability and cyber-securities audit.

Other

There was no other business.

Adjourn

Chair David Lenz adjourned the meeting at 8:08 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



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

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).



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

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,



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

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.



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

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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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 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 *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

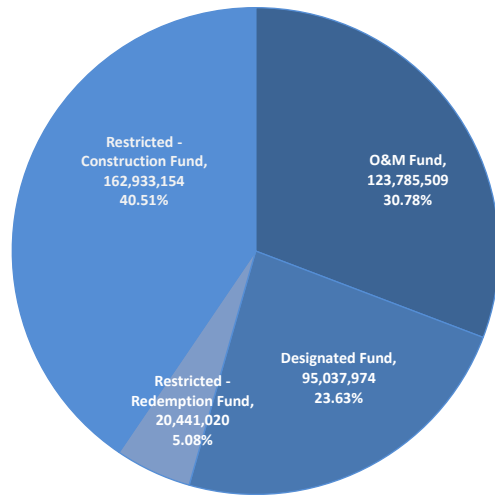
Proposed Resolution
Internal Audit Charter Approval

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 - January 2021



Cash



Total Cash: \$402,197,657

	Month End	Target
Days Cash on Hand	229	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
 $(\text{Budgeted Operating Expenses} - \text{Depreciation} + \text{RoE to City}) / 365$

Debt Service Coverage:

$\frac{\text{Projected Net Income} + \text{Depreciation Expense} + \text{Interest Expense}}{\text{Debt Principal} + \text{Debt Interest}}$

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 216,107,342	\$ 212,524,602	3,582,740	2%
Wholesale	\$ 8,671,643	\$ 18,162,970	(9,491,326)	-52%
Total Revenue	\$ 224,778,986	\$ 230,687,572	(5,908,586)	-3%
Operating Expenses	\$ 167,686,413	\$ 197,390,038	(29,703,625)	-15%
Non Operating Income/(Expense)	\$ (27,647,706)	\$ (29,497,042)	1,849,336	-6%
Net Income	\$ 29,444,866	\$ 3,800,491	25,644,375	675%

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	\$ 85,420,408	\$ 97,838,027	\$ (12,417,619)	-13%
% of Approved Budget	52%	59%		

Capital Budget YTD (Excluding Delta Energy Park)

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 71,299,118	\$ 33,966,701	\$ 35,215,247	\$ (1,248,546)	-4%
% of Approved Budget	48%	49%		

Capital Budget YTD - Delta Energy Park Only

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 121,834,403	\$ 76,372,269	\$ 96,844,459	\$ (20,472,190)	-21%
% of Approved Budget	63%	79%		

Return on Assets

Actual YTD	Budget YTD	Target
4.13%	1.86%	4.14%

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

Financial Summary - January 2021



Ratios

Operating Ratio

<u>O&M Expense</u>	\$ 138,834,919	=	0.62	APPA Median 0.68
Revenue	\$ 224,778,986			

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

Current Ratio

<u>Current Assets</u>	\$ 390,811,750	=	7.15	APPA Median 1.62
Current Liabilities	\$ 54,624,073			

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

Debt to Total Assets

<u>LT Debt + Accrued Liabilities</u>	\$ 957,958,782	=	0.59	APPA Median 0.54
Total Assets	\$ 1,619,986,194			

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

Days Sales Outstanding

<u>Accounts Receivable</u>	\$ 28,483,510	x 31 =	28	Prior Year 26
Average Sales	\$ 31,498,423			

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

Bad Debt

<u>12 Month Rolling Bad Debt</u>	\$ 3,301,203	=	0.91%	Prior Year 0.43%
12 Month Rolling Revenue	\$ 360,919,274			

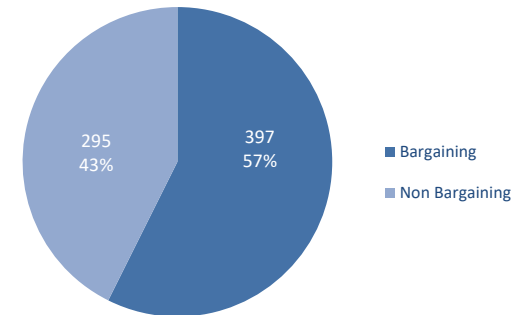
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	692
Budget YTD	732
Over/(Under) #	(40)

Full Time Equivalent
Temporary Employees 40



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 38,087,345	\$ 40,244,460	\$ (2,157,115)	-5.4%	54.97
Overtime	\$ 3,711,497	\$ 3,660,399	\$ 51,098	1.4%	
Total	\$ 41,798,842	\$ 43,904,859	\$ (2,106,017)	-4.8%	
Total Hours Worked	761,626				
Labor \$/Hours Worked	\$ 54.88				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 7,515,709	\$ 8,941,282	\$ (1,425,573)
RX	\$ 2,007,261	\$ 2,028,866	\$ (21,605)
Dental	\$ 728,141	\$ 795,760	\$ (67,619)
Life	\$ 225,529	\$ 228,081	\$ (2,552)
FICA	\$ 3,098,735	\$ 3,371,109	\$ (272,374)
Other	\$ 917,270	\$ 1,276,819	\$ (359,548)
Total	\$ 14,492,645	\$ 16,641,917	\$ (2,149,272)

PROPOSED RESOLUTION
Lansing Board of Water & Light External Auditor Recommendation

WHEREAS, Lansing City Charter Section 3-404.1 requires an independent audit of all accounts of the City government, including the Board of Water and Light (BWL), at the close of each fiscal year, and all such audits shall be made by a Certified Public Accountant designated by the City Council; and

WHEREAS, BWL staff engaged in its normal public procurement process for the purpose of soliciting and evaluating proposals from a variety of independent public accounting firms that have municipal utility audit experience to perform an audit of the BWL as required by Lansing City Charter Section 3-404 for fiscal years ending June 30 on the following respective years: 2021, 2022, 2023, 2024, and 2025; and

WHEREAS, based on the public procurement evaluation of the proposals received, the BWL staff recommends the firm of [To Be Determined] to perform these BWL audits; and

RESOLVED, that the Board of Commissioners support BWL staff's recommendation; and

FURTHER RESOLVED, the Board of Commissioners recommends that Lansing City Council approve and designate Baker Tilly to perform the annual financial audit for each of the fiscal years ending June 30 on the following respective years: 2021, 2022, 2023, 2024, and 2025 in accordance with Lansing City Charter 3-404.1; and

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to submit this resolution on behalf of the Board of Commissioners to City Council requesting their approval of [To Be Determined] as recommended by the Board of Commissioners.



Draft

Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
March 9, 2021

Overview

- Audit Progress Report
- Proposed FY 2022 IA Budget
- Other Items

Audit Progress Report

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

1. Purchase Card Usage and Control – Audit Status: Reporting Stage
2. Unbilled Accounts Receivable – Audit Status: Reporting Stage
3. MPPA and MISO Billings – This audit is in progress. The focus is on audit testing of a selected sample vendor invoice transactions. Estimated Time of Completion: March 2021
4. Cybersecurity Process and IT Vulnerabilities – Unfortunately, after trying to negotiate contract terms with BDO, we reached an impasse and had to move on from them too. Thus, we are in contact with another IT Audit Consultant that submitted an initial bid. New Estimated Start Time: TBD New Estimated Time of Completion: TBD
5. Corporate Governance – Strategic Plan and Ethical Advocate System (Includes Hotline) – Update: a) Strategic Plan – Due to the revamping of the current process into a new one, which has resulted from the January 2021 approval of the new plan by the Board, and through concurring discussions with the process owner, IA determined that it would make sense to postpone the audit engagement to a future fiscal period. B) Ethical Advocate – The same situation applies to this audit engagement. The new process went live in September 2020 and replaced the General Manager’s Hotline.
6. Other Audit Activities - Ongoing

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

Proposed FY 2022 Internal Audit Budget

Account Description	FY 2022 Proposed Budget	FY 2021 Approved Budget	FY22/FY21 Incr/(Decr)	FY22/FY21 Incr/(Decr) %	Explanation
Salaries	\$221,670	\$216,000	\$5,670	2.63%	Wesley Lewis, Internal Auditor and Brian Schimke, Principal Auditor (both are non-bargaining). The proposed increase pertains to the achievement of a professional development goal for the Principal Auditor. Note: This number is an estimate and does not include employee benefits. The HR Department owns the employee benefits part of this process and will provide the final numbers of both areas.
Supplies	2,500	2,000	500	25.00%	This is for anticipated supplies needs for the audit staff.
Travel and Conferences	12,000	12,000	-	0.00%	This includes anticipated CPE seminars, conferences, and webinars (including virtual) needed for audit staff to maintain compliance with the requirements of professional organizations.
Consulting Fees	85,000	75,000	10,000	13.33%	This is for anticipated assistance and resources needed from outside audit contractors to execute possible special audit engagements and other projects. This includes a mandatory peer review engagement (a once every 5 year engagement required by the Institute of Internal Auditors) and a possible audit engagement of the Board of Commissioners corporate governance process.
General Outside Services	8,000	8,000	-	0.00%	This includes professional membership annual dues, licenses, and certifications for the audit staff.
Total Internal Audit Budget, Excluding Employee Benefits	\$329,170	\$313,000	\$16,170	5.17%	

Other Items

1. Update on Ongoing Education and Certification of IA Staff

Proposed FY 2022 Internal Audit Budget

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