



**LANSING BOARD OF WATER AND LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
AGENDA – July 13, 2021**

**5:30 P.M. – 1201 S. Washington Ave., Lansing, MI 48910
Board of Water & Light Headquarters – REO Town Depot**

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

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of May 11, 2021 **TAB 1**
2. May YTD Financial Summary **INFO ONLY**
3. Retirement Plan Committee (RPC) Update **INFO ONLY**
4. Bi-Annual Internal Audit Open Management Responses Update **TAB 2**
5. Internal Audit Status Report **TAB 3**
 - a. FY 22 Audit Plan
 - i. FY 22 Audit Plan Resolution
 - b. Current I/A Department Charter
 - i. Current I/A Department Charter Resolution

Other

Adjourn

FINANCE COMMITTEE

Meeting Minutes

May 11, 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, May 11, 2021.

Event Address for Attendees:

<https://lbwlevents.webex.com/lbwlevents/onstage/g.php?MTID=ebc65b57b270f4406eb04c5dfd3387498>

Event Number for Attendees: 132 169 7679

Event password: NqSimdxR332

Audio conference: United States Toll +1-408-418-9388 Access code: 132 169 7679

Finance Committee Chair David Lenz, called the May 11, 2021, 6:00 p.m. Finance Committee meeting to order at 6:25 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, Lansing, MI (Member)
Stuart Goodrich remotely, Delhi Township, 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 (Alternate)

Absent:

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 March 9, 2021.

Motion Carried by the following Roll Call Vote:

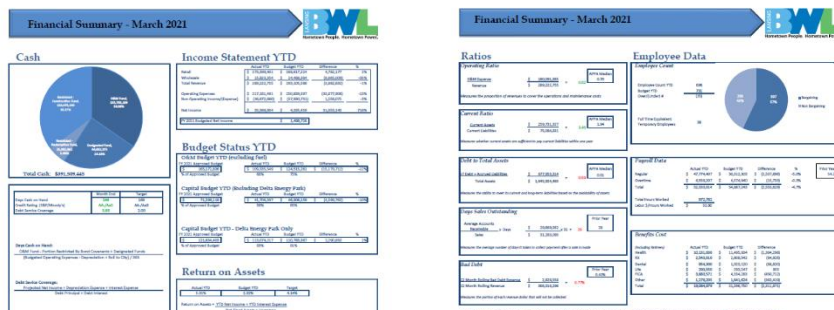
Yeas: Commissioners Lenz, Graham, Price, Ross

Nays: None

Action: Motion Carried.

March YTD Financial Summary

CFO Heather Shawa gave a review of the March 2021 YTD Financial Summary.



Chief Financial Officer Heather Shawa reported that Total Cash was \$391.5 million which was an increase of \$1.6 million from last month. Days Cash on Hand ended the month at 244 and along with Debt Service Coverage remained strong.

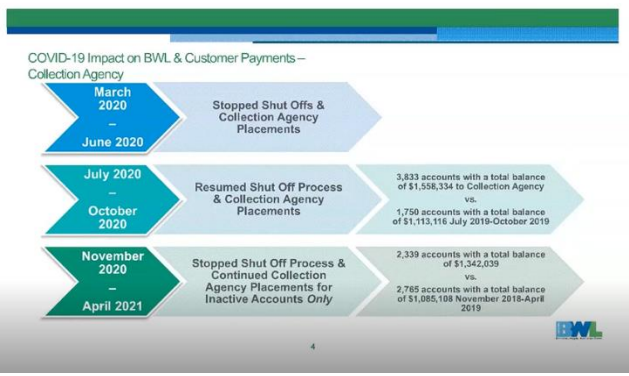
CFO Shawa stated that at the last Finance Committee meeting, the Commissioners asked for a comparison of the financial summary for March 2020 and March 2021 which will be provided in the COVID-19 presentations. CFO Shawa noted that YTD Income Statement and fiscal year end projections will be updated on the April dashboard.

Two of the five ratios are within benchmarks. 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. Days Sales Outstanding is underperforming by one day.

Commissioner Ross asked about the difference in the actual YTD net income and budgeted YTD net income. CFO Shawa responded that Mr. Paul Eory would elaborate on that in the COVID-19 presentation.

Employee count YTD is 696 and the budgeted YTD is 732. In Payroll Data the Labor \$/Hours Worked metric has remained in line with year prior. Overall YTD benefits costs are underbudget, but are medical claims are expected to increase with removal of COVID-19 restrictions.

CFO Shawa introduced Finance and Planning Supervisor, Mr. Paul Eory, who presented an overview of COVID-19’s impact on the BWL from March 2020 to March 2021. Mr. Eory reported on customer payments, Delta Energy Park construction, financial and operational levers, retail sales impact, and the financial status YTD through March 2021. Customer payments have reduced due to the COVID-19 pandemic. Delta Energy park has delayed commercial operation, resulting in FY 2021 income statement budget variances. Various financial and operational levers have provided BWL flexibility in responding to the COVID-19 pandemic. Retail sales have rebounded since initial stay at home orders but are still trending below weather adjusted expectation. Through March 2021, BWL’s fiscal year 2021 income statement has largely been affected by COVID-19, through unpredicted high investment returns, slowed down spending, and the delay in Delta Energy park financing and capitalization.



COVID-19 Impact on Delta Energy Park
Delay in Commercial Operation from June 2021 to September 2021

- \$15M Construction Cost Increase due to COVID-19**
- Delay in Financing Plan**
 - FY21 budget included \$1.7M in interest expense from September 2020 to January 2021 based on a late summer bond issuance for Delta Energy Park (DEP).
 - With our final issuance occurring in January 2021, this is recognized as a budget variance on our FY21 income statement.
- Delay in Asset Capitalization**
 - FY21 budget included \$8.1M in depreciation expense based on capitalizing assets within FY21.
 - Capitalization shifted to FY22, resulting a depreciation budget variance for FY21.
- Total FY21 Income Statement Budget Variance: \$9.8M**

Financial & Operational Levers

Actions Taken			Options Available	Upside Potential
Temporarily shut down Erickson	Suspend non-essential travel and training	Evaluate VEBA funding procedure	Negotiate payment terms with vendors	Industrial customers return sooner than planned & residential increased due to work from home
Adjust fleet/vehicle practices	Detailed cost tracking for future reimbursement	Pay Frozen for One Year	Mandatory O&M reductions by departments	Conservative DB/VEBA market forecast
Bargaining Agreement Extended One Year	Transitioned to Remote Work for 350+ Employees		Adjust capital budget by project	COVID Cost Reimbursements & Grants

Retail Sales Change from COVID-19 - Electric

- Sales volume has rebounded since Stay-at-Home Orders were lifted
- Since June, residential and industrial sales have exceeded budget
- Residential class has seen the highest rebound, with actual sales exceeding weather-adjusted expected sales
- These trends are observed in both electric and water

Reminder from May 2020

COVID-19 Scenario

To understand the potential impact of COVID-19, a scenario was developed for the FY21-26 budget & forecast.

Scenario Includes:

- Reduced retail electric kWh (16%) and water sales CCF (10%) for commercial & industrial customers.
- Wh and CCF sales slowly return to pre-COVID projected levels July 2021.
- Created revised revenue projection.
- Reduce fuel & purchased power expense for reduced sales to retail customers.
- Increase bad debt expense.
- Reduce delayed payment, charge revenue from waived DPCs.

Financial Status Fiscal Year 2021-Q3

FY 2021-Q3 Budget to Actual				
	Budget	Actual	Variance	Variance %
Electric Retail - MMW	1,539,879	1,543,719	3,840	0.25%
Electric Wholesale - MWh	589,674	376,633	(213,041)	(36.13%)
Water - CCF	6,285,368	6,811,526	526,158	8.37%
Steam - MLB	531,854	550,885	19,031	3.58%
Chilled Water - MTHR	7,676	7,232	(443)	(5.77%)
Operating Revenue	\$293,105,568	\$289,222,755	\$(3,882,813)	(1.32%)
Operating Expense	\$250,830,397	\$217,161,491	\$(33,668,906)	(13.42%)
Operating Income	\$42,275,171	\$72,061,264	\$29,786,093	70.50%
Non-Operating Income / (Expense)	\$(37,930,731)	\$(36,872,660)	\$1,058,071	2.79%
Net Income	\$4,344,440	\$35,188,604	\$30,844,164	710.00%

- Departmental spend across BWL is being slowed or otherwise deferred by COVID. \$11.7M under budget.
- Budgeted OPEB/VEBA cost was set roughly at the same time the investment market bottomed out (March/April 2020), so budgeted cost estimates/investment returns were very conservative. With investment returns exceeding budget, we are \$6.9M under OPEB/VEBA budget YTD.
- Delay in Delta Energy Park (DEP) capitalization delayed recognition of \$6.1M in depreciation expense for the plant.
- The delay in DEP construction also deferred the third phase of bond issuance 5 months, leading to an interest expense budget variance of \$1.7M on our FY21 income statement.

In Summary

- Customer payments have reduced due to the COVID-19 Pandemic.
- Delta Energy Park has delayed commercial operation, resulting in FY2021 income statement budget variances.
- Various financial & operational levers have provided BWL flexibility in responding to the COVID-19 Pandemic.
- Retail sales have rebounded since initial stay at home orders but are still trending below weather adjusted expectation.
- Through March 2021, our fiscal year 2021 income statement has largely been affected by COVID-19, through unpredicted high investment returns, slowed down spending, and the delay in Delta Energy Park financing and capitalization.

Commissioner Ross asked about the supply chain disruption in the perspective of utilities and Delta Energy Park construction. GM Peffley responded that most of the supplies for Delta Energy Park have been received but the travel bans are affecting the subject matter experts who are in Sweden. The subject matter experts are communicating through laptops, which is slower but all three of the turbines have been run. The plant is scheduled to start running in early fall. CFO Shawa responded that there haven't been any issues to date with the supply chain but there are starting to be extended lead times for some parts which will be ordered ahead of time.

Commissioner Thomas asked what was saved with employees working at home rather than in the office. GM Peffley responded that the information will be gathered and put together for an upcoming meeting. CFO Shawa responded that information can be provided at the next Finance Committee meeting.

Retirement Plan Committee (RPC) Updates

CFO Shawa stated there will be a standing agenda item for Retirement Plan Committee updates and any investment actions that have been taken since the last Finance Committee meeting. Administration actions will be presented at the next Human Resources Committee meeting.

CFO Shawa reported the following investment activity updates:

- VEBA Small/Mid-Cap Fund Manager Change of approximately \$23.5M and 10% of VEBA plan assets from Aristotle to Atlanta Capital
- VEBA Rebalancing of \$6.5M and 3% of portfolio from large cap equity to real assets, \$3.5M has been completed already and \$3M is expected to take place next quarter
- DB Plan Distributions

Commissioner Lenz asked from where the money comes if \$3.5M million is generated and \$5M is paid out. CFO Shawa responded that both the DB and VEBA are fully funded and there won't be any shortfall.

CFO Shawa introduced Accounting and Finance Manager, Mr. Scott Taylor and Ms. Dori Drayton, Senior Vice President at CapTrust, as the financial advisor for the DC, 401, and 457 Plans. Mr. Taylor reviewed the recommendations for the investment policy statements for the DC Plans. With the transition of the plans from Plante Moran Financial Advisors to CapTrust, restating and reorganizing changes are being made to these statements for the retirement plans. One of the benefits of transitioning to CapTrust is more robust reporting and monitoring capabilities of accounts.

Commissioner Ross asked whether the Committee as an investment fiduciary is a delegation by the Board. Ms. Drayton responded that there are general fiduciary duties for the governing body and in addition there are investment fiduciary responsibilities as defined in Public Act 314. Commissioner Ross also asked whether there is an adequate framework in the governance and delegation to the committee who provides the information to be reviewed. Ms. Drayton responded that there was adequate governance and flow of information. Commissioner Ross also asked what deviations are normal under the policy goals and objectives section. Ms. Drayton responded by stating that the investment policy statement says that an investment advisor will be utilized to serve the plan. She then said that if, for example, it was determined that instead of using an advisor, an internal team would be assigned to the role, that would create a technical deviation. This part of the policy would allow time to update the policy to reflect the desire for this change without resulting in a technical violation. Commissioner Ross asked what degree of detail in transparency will be provided and how it will be provided. CFO Shawa responded that the recommendation for a standing reoccurring agenda item will provide updates. In addition, the Retirement Plan Committee takes minutes at the meetings, the financial advisors provide advice and counsel, quarterly performance reporting of the plans, and a pension fund trustees meeting is held annually.

Mr. Taylor added that there is an annual dashboard that is provided at the annual Trustees meeting, of which one page is dedicated to the 401 and 457 plans, which can be reviewed as to whether the information can be provided more frequently.

Motion by Commissioner Ross, **Seconded** by Commissioner Price, to forward the Resolution for the Investment Policy Statements for the DC plans to the full Board for consideration.

Roll Call Vote:

Yeas: Commissioners Lenz, Graham, Price, Ross

Nays: None

Action: Motion Carried.

FY22 Operating Budget and FY22-27 Forecast Presentation

GM Peffley remarked that the staff did an incredible job with minimal increases this year. This year’s budget allows the continuation of transitioning to being the utility of the future, provides funding to O&M for maintaining high quality of service, provides funding to replace obsolete systems, and paves the way to increase water main replacement from two miles a year to eight miles a year. More efficient use of the work force has been implemented and a double-digit rate advantage will be realized over the nearest competitor.

CFO Shawa spoke about the FY 22 Operating Budget and FY 22-27 Forecast. Ms. Shawa reported on the strategic objectives, the key budget and forecast assumptions, volume history and forecast by utility, operating budget and forecast, capital budget and forecast and subsequent steps.

FY 2021 Key Accomplishments for BWL:

- 90% completion of ISO Certification at REO Plant
- Issued Series 2021 A&B bonds
- Capacity Testing at Delta Energy Park
- Implemented Capital Projects Process (CPT)
- Adopted new Strategic Plan
- Continued BSmart deployments
- Transition to Nationwide for DC Plans
- Paused customer shutoffs due to COVID-19 Pandemic
- Continued cyber security resiliency
- Continued roll out and enhancements made in the organizational change management, performance management, and employee engagement processes
- Implemented cost-saving strategies to improve rate competitiveness and defer previously planned rate increases

BWL's prior Strategic Plan, adopted in 2016, detailed the following goals and objectives:

- Strategy 6 Goal: Maintain the financial stability of the BWL
 - All of the BWL's ongoing efforts and strategic initiatives require funding. The balance between providing this funding and its impact on rates requires a comprehensive financial plan and rate strategy.
- Strategy 6, Objective 1: Practice good financial stewardship
 - Develop a Financial Plan that includes a rate strategy that provides financing for the BWL's capital program and replacement generation needs while maintaining competitive rates
 - FY2020 included the 3rd year of a 3-year rate strategy that has provided sufficient liquidity to fund initiatives and to provide stability through COVID-19
 - FY2020 rate increases were deferred due BWL's prudent measures in place in response to the COVID-19 Pandemic
 - Maintain an above average bond rating for municipal utilities
 - Ratings reaffirmed during 2021 A&B bond issuances
 - Identify cost savings through process improvement initiatives and return on investments with minimal impact on operations or employees
 - 300+ items received from workforce that continue to be vetted and implemented
 - Commit to reviewing and consistently achieving targeted rate of return
 - Achievement of ROA targeted for FY2025 due to rate increase deferrals in FY2020 and FY2021

GM Peffley commented on the 90% completion of ISO Certification at REO Plant and stated it is the second ISO certification out of 2000 + utilities in the country.

Looking forward, the 2021-2025 Strategic Plan includes six key strategies that focus on our financial resiliency:

- Strategic Objectives
 - BWL Year in Review
 - 2016-2020 Strategic Plan: Financial Stability
 - 2021-2025 Strategic Plan
 - Target Metrics
 - Minimum Cash Reserve Requirement Policy
 - Budget & Forecast Cycle Focus
- Customer & Community Strategy 4 (SP Priority 4):
 - Promote economic development and regional partnerships that create growth and synergy
- Operational Resiliency & Continuous Improvement Strategy 1 (SP Priority 4):
 - Identify and respond to opportunities for continuous improvement that balance performance, cost and risk
- Financial Strategy 1 (SP Priority 5):
 - Continue to refine our rate structure for existing and new customers
- Financial Strategy 2 (SP Priority 5):
 - Sustain fiscal and fiduciary responsibility through planning, analysis, policies, practices and internal controls
- Financial Strategy 3 (SP Priority 5):
 - Pursue opportunities and adopt practices that enhance BWL's competitiveness
- Financial Strategy 4 (SP Priority 5):
 - Identify, evaluate and implement revenue diversification opportunities

- Strategic Objectives
 - BWL Year in Review
 - 2016-2020 Strategic Plan: Financial Stability
 - 2021-2025 Strategic Plan
 - Target Metrics
 - Minimum Cash Reserve Requirement Policy
 - Budget & Forecast Cycle Focus
- Maintain high credit rating
 - BWL is currently rated AA- (S&P) and Aa3 (Moody's) with stable outlooks
- Generate adequate return on assets (RoA)
 - Adequate RoA is essential to municipal utilities
 - Ensures current rate payers are not deferring costs to future generations and infrastructure is invested in to maintain exceptional levels of service
 - An appropriate RoA recovers two main items:
 - Interest expense
 - Inflationary increase of infrastructure replacement costs
 - Regular calculations required by the Board of Commissioners (Resolution 2016-07-08)
 - Return on Assets FY 2022-2027 Target: 4.20%
 - We are planning to reach this target in FY2026
- Ensure adequate liquidity
 - BWL must be able to pay current obligations
 - Minimum cash reserve requirement: 173 days
 - Debt service coverage minimum target: 1.00x

Commissioner Ross asked whether the target rate of return on assets of 4.2% was an aspirational goal for the Board. CFO Shawa responded that prior to the beginning of the COVID-19 pandemic BWL was on track to attain the 4.2% goal in 2024 and that it is a realistic and important goal for 2026. The 4.2% return on assets benefits customers with more reliable and quality service. GM Peffley added that the Finance Department provided all the numbers and his only concern was the competitiveness of rates and then balanced it with the capital work that would be done and the items on which he remarked at the beginning of this presentation.

To ensure adequate liquidity, the Board of Commissioners adopted a Minimum Cash Reserve Requirement Policy in 2018 (Resolution #2018-05-02)

- Strategic Objectives
 - BWL Year in Review
 - 2016-2020 Strategic Plan: Financial Stability
 - 2021-2025 Strategic Plan
 - Target Metrics
 - Minimum Cash Reserve Requirement Policy
 - Budget & Forecast Cycle Focus
- The policy bolsters financial strength, situational resilience, fiscal responsibility, and credit quality
- The minimum cash reserve requirement is determined using a risk-based calculation of the following key cash requirements:
 1. Net O&M Expense
 2. Return on Equity to the City
 3. Historical Plant in Service
 4. Debt Service
 5. Six-Year Net Capital Improvement Plan
- Each cash requirement is multiplied by its associated risk factor and summed to determine the minimum cash reserve requirement
- The calculation is applied to each of the BWL's four utilities individually and then aggregated to determine the overall BWL minimum cash reserve requirement
- In accordance with this policy, the Board will ensure that the proposed budget and forecast meets the minimum cash reserve requirements as defined in the policy

- Strategic Objectives
 - BWL Year in Review
 - 2016-2020 Strategic Plan: Financial Stability
 - 2021-2025 Strategic Plan
 - Target Metrics
 - Minimum Cash Reserve Requirement Policy
 - Budget & Forecast Cycle Focus

- Key Budget & Forecast Assumptions
- Expected operation of Delta Energy Park September 2021.
- Erickson is closed May 2023.
- New strategic plan is supported by this budget & forecast.
- Defined Benefit and Voluntary Post Employment Benefits (DB/VEBA) investment returns are meeting target.
- Total employee count is budgeted at 720 for FY 2022 and declines in each succeeding year through FY 2026 (650) due to natural attrition.
- For the second year in a row, FY22 rate increases have been deferred due to COVID-19.
- Water main replacements achieve 8 miles per year FY2026 & FY2027.
- Return on Equity to the city based on current 2-year agreement expiring June 2022.
- Major steam customer contract expires October 2022. Forecast assumes contract is renewed at current terms.

Note: Numbers presented throughout may not add up precisely to the totals provided due to rounding

- Sales Volume History and Forecast by Utility, FY 17-27

GM Peffley commented that the Erickson closure in May of 2023 will be two and a half years prior to what was previously stated as the cost of energy and the capacity market has changed. Exit strategies for employees are being worked on.

GM Peffley commented on the sales forecast and stated that it will be achieved as BWL is adding additional customers.

Operating Budget & Forecast

- FY 2022 Income Statement
- FY 2022 vs FY2021 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow
- 6-Year Bonded Debt Service

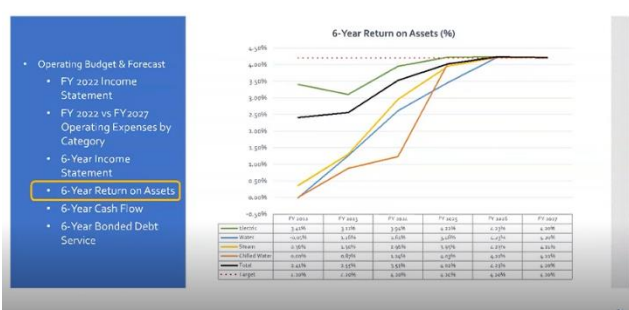
	2021	2022	2023	2024	2025	2026	2027
FY 2022 Income Statement							
Operating Revenue	\$ 324,818,687	\$ 48,726,937	\$ 12,163,076	\$ 6,197,218	\$ 392,517,511		
Operating Expenses	\$ 1,660,362,515	\$ 1,782,032,515	\$ 1,778,987,515	\$ 1,778,987,515	\$ 1,778,987,515	\$ 1,778,987,515	\$ 1,778,987,515
Total Operating Revenue/Expense	\$ (1,335,543,828)	\$ (1,293,305,578)	\$ (1,565,911,439)	\$ (1,572,790,297)	\$ (1,386,469,994)	\$ (1,386,469,994)	\$ (1,386,469,994)
Return on Assets	3.41%	-0.11%	0.38%	0.00%	2.47%		
Target Return on Assets	4.20%	4.20%	4.20%	4.20%	4.20%		



Operating Budget & Forecast

- FY 2022 Income Statement
- FY 2022 vs FY2021 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow
- 6-Year Bonded Debt Service

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Operating Budget & Forecast

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- 6-Year Bonded Debt Service

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Return on Assets	3.41%	-0.11%	0.38%	0.00%	2.47%		
Target Return on Assets	4.20%	4.20%	4.20%	4.20%	4.20%		



Commissioner Merrill asked what the average number was for the return on assets at the end of the fiscal year historically. CFO Shawa responded that 4.2% was the goal for this fiscal year, last year was 4.14%, and in 2015 and 2016 it was just above 2% and increased in 2017, 2018 and 2019. She added that additional information could be researched and provided. Commissioner Merrill asked for the reason that the target for the return on asset for 2022 was 2.6% when 4.2% has been achieved previously. Mr. Taylor responded that bringing the new plant online will be about \$20M and will affect the return on assets. GM Peffley responded that there also be a rate hike.

Commissioner Price commented that 4.2% was adopted as a goal by resolution four years ago and replaced an unachievable goal of 6.17%.

Commissioner Jester asked if the cost of setting up on-bill financing and investments in electric vehicle infrastructure were included in the budget. GM Peffley responded that technology for on-bill financing will arrive in the fall and \$400,000 is being worked on for charging stations.

Commissioner Jester asked whether funds to be loaned would be BWL funds or third-party funds. CFO Shawa said that it hadn't been determined yet. GM Peffley added that Holland's on-bill financing that has been successfully implemented is being reviewed.

Mr. Taylor reported on the capital portfolio budget and forecast.

Capital Portfolio Budget & Forecast

- Capital Portfolio Spending by Utility and Location
- Capital Portfolio Major Projects
- Capital Portfolio Gates and Phases
- Capital Portfolio Spending by Project's Current Phase
- Capital Portfolio Spending by Phase

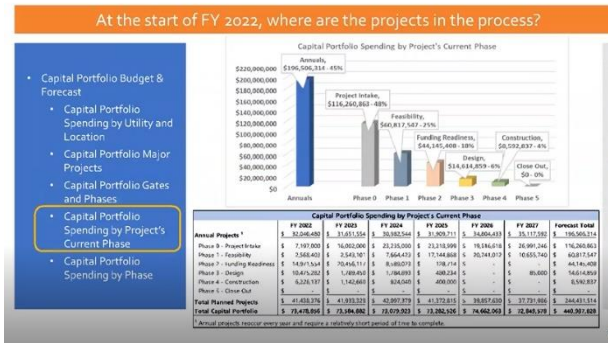
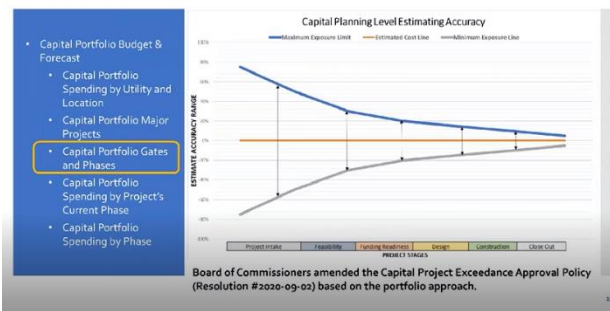
Year Capital by Utility and Location	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Forecast Total
Utility							
Electric	\$ 48,276,774	\$ 51,272,777	\$ 46,147,800	\$ 48,022,264	\$ 48,800,000	\$ 45,209,500	\$ 227,717,600
Water	\$ 12,261,111	\$ 12,998,681	\$ 15,771,100	\$ 14,500,000	\$ 17,000,000	\$ 16,700,000	\$ 80,270,891
Waste	\$ 1,746,102	\$ 1,799,888	\$ 1,843,517	\$ 1,812,510	\$ 1,874,244	\$ 1,914,253	\$ 9,279,796
Cable Water	\$ 20,000	\$ 24,000	\$ 30,000	\$ 34,000	\$ 40,000	\$ 45,000	\$ 204,000
Common	\$ 11,200,000	\$ 8,172,000	\$ 8,888,210	\$ 7,311,100	\$ 8,453,927	\$ 8,707,120	\$ 47,336,287
Capital Portfolio Funding Gap	\$ 79,789,994	\$ 73,844,842	\$ 73,079,900	\$ 73,283,724	\$ 74,800,000	\$ 73,648,774	\$ 400,977,848
Orto Energy Park	\$ 45,352,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,352,020
Year Capital Portfolio	\$ 118,821,484	\$ 115,844,282	\$ 119,919,620	\$ 119,282,224	\$ 124,600,244	\$ 121,268,574	\$ 608,224,424
Location							
East	\$ 895,800	\$ -	\$ -	\$ -	\$ -	\$ 795,800	\$ 1,691,600
Greenway	\$ 4,183,000	\$ 3,058,000	\$ 2,550,000	\$ -	\$ -	\$ -	\$ 7,191,000
WLD Area	\$ 1,400,000	\$ 1,600,000	\$ 1,400,000	\$ -	\$ 1,000,000	\$ -	\$ 5,400,000
Orto Energy Park	\$ 45,352,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,352,020
USD	\$ 48,762,700	\$ 45,118,882	\$ 32,647,802	\$ 32,210,040	\$ 49,001,140	\$ 41,852,250	\$ 200,600,814
Water Production	\$ 2,962,000	\$ 3,225,000	\$ 3,984,400	\$ 3,805,740	\$ 3,964,300	\$ 4,181,482	\$ 17,799,202
Cable Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ 19,740,480	\$ 9,212,000	\$ 10,010,000	\$ 19,282,224	\$ 20,740,000	\$ 21,146,000	\$ 90,966,704
Total Capital Portfolio	\$ 118,821,484	\$ 115,844,282	\$ 119,919,620	\$ 119,282,224	\$ 124,600,244	\$ 121,268,574	\$ 608,224,424

Capital Portfolio Budget & Forecast

- Capital Portfolio Spending by Utility and Location
- Capital Portfolio Major Projects
- Capital Portfolio Gates and Phases
- Capital Portfolio Spending by Project's Current Phase
- Capital Portfolio Spending by Phase

Year Capital by Utility and Location	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Forecast Total
Utility							
Electric	\$ 48,276,774	\$ 51,272,777	\$ 46,147,800	\$ 48,022,264	\$ 48,800,000	\$ 45,209,500	\$ 227,717,600
Water	\$ 12,261,111	\$ 12,998,681	\$ 15,771,100	\$ 14,500,000	\$ 17,000,000	\$ 16,700,000	\$ 80,270,891
Waste	\$ 1,746,102	\$ 1,799,888	\$ 1,843,517	\$ 1,812,510	\$ 1,874,244	\$ 1,914,253	\$ 9,279,796
Cable Water	\$ 20,000	\$ 24,000	\$ 30,000	\$ 34,000	\$ 40,000	\$ 45,000	\$ 204,000
Common	\$ 11,200,000	\$ 8,172,000	\$ 8,888,210	\$ 7,311,100	\$ 8,453,927	\$ 8,707,120	\$ 47,336,287
Capital Portfolio Funding Gap	\$ 79,789,994	\$ 73,844,842	\$ 73,079,900	\$ 73,283,724	\$ 74,800,000	\$ 73,648,774	\$ 400,977,848
Orto Energy Park	\$ 45,352,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,352,020
Year Capital Portfolio	\$ 118,821,484	\$ 115,844,282	\$ 119,919,620	\$ 119,282,224	\$ 124,600,244	\$ 121,268,574	\$ 608,224,424
Location							
East	\$ 895,800	\$ -	\$ -	\$ -	\$ -	\$ 795,800	\$ 1,691,600
Greenway	\$ 4,183,000	\$ 3,058,000	\$ 2,550,000	\$ -	\$ -	\$ -	\$ 7,191,000
WLD Area	\$ 1,400,000	\$ 1,600,000	\$ 1,400,000	\$ -	\$ 1,000,000	\$ -	\$ 5,400,000
Orto Energy Park	\$ 45,352,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,352,020
USD	\$ 48,762,700	\$ 45,118,882	\$ 32,647,802	\$ 32,210,040	\$ 49,001,140	\$ 41,852,250	\$ 200,600,814
Water Production	\$ 2,962,000	\$ 3,225,000	\$ 3,984,400	\$ 3,805,740	\$ 3,964,300	\$ 4,181,482	\$ 17,799,202
Cable Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ 19,740,480	\$ 9,212,000	\$ 10,010,000	\$ 19,282,224	\$ 20,740,000	\$ 21,146,000	\$ 90,966,704
Total Capital Portfolio	\$ 118,821,484	\$ 115,844,282	\$ 119,919,620	\$ 119,282,224	\$ 124,600,244	\$ 121,268,574	\$ 608,224,424

Commissioner Lenz asked about the increase in the amount in REO plant spending. GM Peffley responded that the gas turbines are being rebuilt due to age. Commissioner Lenz asked what determined whether the turbines would be rebuilt or replaced. GM Peffley responded that the rebuild refurbishes the turbines to like-new condition.



GM Peffley commented on the repetitive project of the replacing of two miles of pipe every year. There are 800 miles of pipe, which has a life of 100 years, and two miles a year was falling behind the lifespan of the pipe. The increase to eight miles a year will allow the replacing of the pipe within its lifespan.

Mr. Peffley commented on the model for the projects that will be done and stated it will keep unnecessary exceedances from being requested and better prices can be attained.

Commissioner Lenz asked if a presentation could be given in the future to demonstrate the difference between annual projects and planned projects and how the projects are monitored for project management efficiency. GM Peffley responded that could easily be done at a future meeting.

Commissioner Lenz asked what percent of the design budget is vendor-based versus internal. Mr. Taylor responded that he would send the figures by email to Commissioner Lenz.

Commissioner Ross and Commissioner Lenz commended GM Peffley, CFO Shawa and Mr. Taylor on the effort and presentation of the budget and forecast. CFO Shawa thanked the commissioners and said there was a team of 10 employees that worked on the budget and forecast.

Motion by Commissioner Price, **Seconded** by Commissioner Ross, to forward the FY22 Operating Budget and FY22-27 Forecast Resolution to the full board for approval.

Roll Call Vote:

Yeas: Commissioners Lenz, Graham, Price, Ross

Nays: None

Action: Motion Carried.

Internal Audit Status Report

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

Audit Progress Report

Audit Engagements and Activities in Audit Plan Completed, Currently Underway, Scheduled to Start, or Changed

1. **Unbilled Accounts Receivable** – **Audit Status:** Completed, Audit Report Issued 3/17/2021
2. **Purchase Card Usage and Control** – **Audit Status:** Completed, Audit Report Issued 3/30/2021
3. **MPPA and MISO Billing** – Audit fieldwork is done. Now, this audit is in currently in issues discussion resolution with management. This has delayed the completion of the engagement. **New Estimated Time of Completion: May 2021**
4. **Cybersecurity Process and IT Vulnerabilities** – BWL and BDO reached an agreement on terms and conditions in late March, and now BDO has engaged in conducting this audit engagement. **New Estimated Time of Completion: TBD (could be 4-6 weeks depending on how the engagement goes)**
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.

FY 2022 Risk Assessment Process Update

1. Initial input was received from Management during March and April 2021.
2. Follow-up with them has taken place.
3. IA has already started risk ranking business processes that are due for audit. This process will be done before mid-May 2021.
4. A preliminary audit plan will be ready to share with the Finance Committee for initial feedback mid-May 2021. This will be reviewed and tweaked as necessary.
5. IA will share the audit plan with the CFO toward the end of May for their review and feedback.
6. IA will present the audit plan to Senior Management during the second week of June 2021 for their review and feedback.
7. IA will present the audit plan to the Finance Committee for its consideration and approval during its July 2021 meeting.
8. The Finance Committee will present the audit plan as part of its report to the BOC for its consideration and approval during its July 2021 meeting.



Finance Committee Meeting
5/11/2021

3



Finance Committee Meeting
5/11/2021

4

Commissioner Lenz asked if there is an expected completion date for the audit that was delayed due to vendor issues. Mr. Lewis responded that the forecasted date is in the second week of June and if there are any changes he will keep the Commissioners informed.

Other

Chair Price stated that there will be a Fund Trustees meeting the same week as the Board meeting. The Pension Fund Trustees meeting will be held with the purpose of accepting the Investments Policy Statements for the DC Plans approved by the Board.

Adjourn

Chair David Lenz adjourned the meeting at 8:49 p.m.

Respectfully submitted
David Lenz, Chair Finance Committee

Follow-up to Internal Audit Findings & Recommendations

Finance Committee 7/13/2021

Resolution #2018-07-05

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

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

Open Actions

- ▶ P-Card (New)
 - ▶ Revise and Update P-Card Manual and Program - ECD 12/31/2021
 - ▶ The manual will be updated to reflect changes in reconciliation and approval process as well as provide guidelines for instances of lost or stolen cards, suspected fraud, changing technology, penalties for violations, sales tax, etc.
 - ▶ Work with merchant when possible and practical to prohibit unauthorized card purchases.
 - ▶ Verify that revised P-Card manual aligns with other BWL polices and procedures. For example, the BWL Employee Travel and Reimbursement form and the BWL Procurement Policy.
 - ▶ Establish and enable reconciliations, sign off reviews, and record retention to occur electronically through the merchant portal.

Open Actions (continued)

- ▶ P-Card (Continued)
 - ▶ **Revise and Update P-Card Manual and Program - ECD 12/31/2021**
 - ▶ P-Card administrator procedure will be created to include:
 - ▶ Periodic Review of user access and approval limits within merchant portal.
 - ▶ Periodic review of split charges to identify attempts to circumvent P-Card program transaction limits.
 - ▶ Periodic audits of reconciliations of each cardholder's transaction file and monthly reports to help ensure compliance with the P-Card manual.
 - ▶ Annual Review of P-Card usage to determine if P-Card user status is necessary.
 - ▶ Provide clear and concise documentation standards for the types and criteria of supporting documentation for all P-card purchases.
 - ▶ **Mandatory Training for P-Card Holders - ECD 2/28/2022**
 - ▶ Training for P-Card holders on the revised P-Card Manual and processes.

Open Actions (continued)

- ▶ MPPA/MISO Billings (New)
 - ▶ Implement formal and written procedures that pertain to the review and approval of MPPA and MISO invoices - ECD 8/31/2021
 - ▶ Develop a written process and procedure for review and approval for MPPA and MISO invoices.
 - ▶ Implement a formal user access security review process, including written policies and procedures for the OATI System - ECD 7/31/2021
 - ▶ Develop a formal user access security review procedure for a designee reviewer to verify user access is proper for the OATI software system. This review will be completed no less than every six months.

Closed Actions

- ▶ Energy Risk Management
 - ▶ Develop BWL Performance ERM Status Report - ECD 2/28/2021, actual completion date 2/28/2021
 - ▶ Completed action -Finalized ERM Status Report with measures and formats described in the BWL Energy Risk Management Policy. Management collaborated with XStone to develop the “ERM Status Report” that serves the same purpose as a scorecard to measure performance. The ERM Status Report is reviewed monthly by members of the ROC.

Closed Actions (continued)

▶ Procurement

- ▶ Standardize and centralize storage of purchasing documentation - ECD 12/31/2020, actual completion date 1/31/2021
- ▶ Completed action - The purchasing processes and procedures were updated and implemented to ensure that purchasing documents are stored in a standardized and centralized manner. Additionally, a new process and procedure was developed and implemented for departments external to the purchasing department to ensure that their purchasing documents are stored in one central location.
- ▶ Completed action- Training of departments external to the purchasing department took place in January 2021 on how to utilize the new document retention process.



Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
July 13, 2021

Overview

- FY 2021 Audit Progress Report
- FY 2022 Risk Assessment Update
- Proposed FY 2022 Audit Plan Highlights
- Proposed FY 2022 Audit Plan Details
- Action Items
- Other Items

FY 2021 Audit Progress Report

Audit Engagements and Activities in Audit Plan Completed, Currently Underway, Scheduled to Start, or Changed

1. **Unbilled Accounts Receivable** – ***Audit Status:*** Completed, Audit Report Issued 3/17/2021
2. **Purchase Card Usage and Control** – ***Audit Status:*** Completed, Audit Report Issued 3/30/2021
3. **MPPA and MISO Billings** – ***Audit Status:*** Completed, Audit Report Issued 6/10/2021
4. **Cybersecurity Process and IT Vulnerabilities** – ***Audit Status:*** BDO completed Part 1 (Cybermaturity Assessment) of the audit engagement. Part 2 (Vulnerability Assessment and Penetration Testing) BDO is currently in the process completing this part of the audit.
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.*

FY 2022 Risk Assessment Process

Update

- 1. Initial input was received from Management during March and April 2021.**
- 2. Follow-up with them has taken place.**
- 3. IA has already started risk ranking business processes that are due for audit. This process will be done before mid-May 2021.**
- 4. A preliminary audit plan will be ready to share with the Finance Committee for initial feedback mid-May 2021. This will be reviewed and tweaked as necessary.**
- 5. IA will share the audit plan with the CFO toward the end of May for their review and feedback.**
- 6. IA will present the audit plan to Senior Management during the second week of June 2021 for their review and feedback.**
- 7. IA will present the audit plan to the Finance Committee for its consideration and approval during its July 2021 meeting.**
- 8. The Finance Committee will present the audit plan as part of its report to the BOC for its consideration and approval during its July 2021 meeting.**

Proposed FY 2022 Audit Plan – Highlights

Top Six Engagements for FY 2022 (as discussed and agreed with Senior Management):

1. Time Recording, Payroll Processing, and Payment of Overtime – Payroll (*First Time Audit*)
2. Employee Master File (To Be Included in #1 Above) – Human Resources, Last Audit: October 2017
3. Manage Mobile Devices – Information Technology, Last Audit: October 2017
4. Outage Management System (Current Process) – Operations (*First Time Audit*)
5. Enterprise Information Management (Records Retention Management) – Legal/Management/Board Processes, Last Audit: March 2014
6. Capital Projects Management – BWL Other (*First Time Audit*)

Note: The audit engagements listed above, along with anticipated start and completions, are and will be subject to change.

Proposed FY 2022 Audit Plan Details

Planned Audits:	Estimated Hours
<u>Payroll</u> – Time Recording, Payroll Processing, and Payment of Overtime	600
<u>Human Resources</u> – Employee Master File	100
<u>Information Technology</u> – Management of Mobile Devices	500
<u>Outage Management System</u> – Outage Management System	500
<u>Enterprise Information Management</u> – Operations	500
<u>Capital Projects Management</u> – BWL Other	600
Other Engagements and Projects:	
Peer Review Preparation and Engagement, as Required by the Institute of Internal Auditors	500
Ongoing Management Assistance	100
Special Projects and Requests	200
Total Required Hours	3,600

Proposed FY 2022 Audit Plan Details (Cont'd)

- Questions?
- We recommend approval of the FY 2022 Audit Plan.

Action Items

- Approval of FY 2022 Audit Plan
- Approval of current Internal Audit Department Charter

Other Items

- Update on Ongoing Education and Certification of IA Staff

Proposed Resolution
Fiscal Year 2022 Audit Plan Approval

RESOLVED, That the Board of Commissioners hereby approves the Fiscal Year 2022 Audit Plan submitted by Internal Audit.



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.



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

- 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

Proposed Resolution
Internal Audit Department Charter Approval

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