



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

November 10, 2020

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=ecf5a05123f095d6c15f9035f7910c130>

Event number: 132 548 8521 Event Password: B22NmgmSkd3


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

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 September 8, 2020.....**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. September YTD Financial Summary.....**INFO ONLY**

4. Retirement Plan Committee (RPC).....**INFO ONLY**

a. General Updates

b. VEBA Funding Operational Procedure

- 5. Utility System Revenue Bond Amendment- ResolutionTAB 5
- 6. Internal Audit Status ReportTAB 6

Adjourn

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

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

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

FINANCE COMMITTEE
Meeting Minutes
September 8, 2020

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

Finance Committee Chair David Lenz, called the September 8, 2020, 6:00 P.M. Finance Committee meeting to order at 6:51 p.m.

Corporate Secretary Griffin took the roll call to acknowledge attendance.

Present: Commissioners David Lenz, Beth Graham, David Price, and Ken Ross. Also, present: Commissioners Deshon Leek, Tracy Thomas, and Sandra Zerkle; and Non-Voting Commissioners Douglas Jester (East Lansing) and Larry Merrill (Delta Township).

Absent: None.

The Corporate Secretary declared a quorum.

Public Comments

None.

Approval of Minutes

Motion by Commissioner Price, **Seconded** by Commissioner Ross, to approve the Finance Committee meeting minutes of July 21, 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) Proposed Internal Audit Charter, 2) Redlined Internal Audit Charter, 3) Resolution

Baker Tilly External Audit Report and Resolution

Chief Financial Officer (CFO) Heather Shawa introduced external auditor Jodi Dobson, Partner at Baker Tilly Virchow Krause, LLP. Ms. Dobson presented and highlighted the external audit report which included an audit overview, observations and recommendations, and required communications to the governing body. BWL received an unmodified or clean opinion which is the highest level of assurance provided.

Ms. Dobson's presentation was as follows:

Board of Water and Light – City of Lansing
Finance Committee Meeting - 2020 Audit Presentation
September 8, 2020

Board of Water and Light – City of Lansing

Agenda

- Audit overview
- Observations and Recommendations
- Required Communication to Governing Body

Board of Water and Light – City of Lansing
Audit Overview

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

Board of Water and Light – City of Lansing
Audit Overview

Financial Statements Include

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

Board of Water and Light – City of Lansing
Audit Overview

Audit assesses internal controls

...a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources!

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

Board of Water and Light – City of Lansing
Audit Overview

Controls reviewed in key transaction areas

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

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

- Reported net income of \$29,700,000
- Bond coverage was met in 2020
- There were no material weaknesses reported
- Implemented GASB 88

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

Operating Revenues – Four-year Comparison (in thousands)

	2017	2018	2019	2020
Water	\$ 28,708	\$ 31,124	\$ 31,921	\$ 31,324
Electricity	111,625	128,281	128,391	128,391
Electricity	15,848	15,721	15,762	15,224
Other water	5,202	5,225	5,222	5,222
Operating Revenues	\$ 159,383	\$ 180,351	\$ 181,296	\$ 180,161

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

Operating Expenses – Four-year Comparison (in thousands)

	2017	2018	2019	2020
Production	\$ 185,111	\$ 174,244	\$ 184,277	\$ 184,414
Transmission and Distribution	24,981	27,581	28,451	28,411
Administration and General	74,423	75,228	74,284	75,217
Electricity supply	22,842	25,042	25,222	25,206
Depreciation	43,196	45,215	45,154	45,153
Operating Expenses	\$ 269,553	\$ 249,391	\$ 257,388	\$ 258,401

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

Operating Income – Four-year Comparison (in thousands)

	2017	2018	2019	2020
Water	\$ 1,808	\$ 3,421	\$ 1,226	\$ 1,840
Electricity	71,130	13,295	19,471	43,812
Electricity	1,286	1,471	1,464	892
Other water	3,009	3,455	3,424	3,093
Operating Income	\$ 23,032	\$ 21,592	\$ 25,525	\$ 52,637

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

Future Debt Service Requirements (in thousands)

	2021	2022	2023	2024	2025
Principal	\$ 2,242	\$ 11,242	\$ 13,874	\$ 14,485	\$ 14,892
Interest	22,682	21,942	21,496	21,088	20,695

Debt service after 2025 includes remaining principal payments of \$588,798,725 and interest payments of \$356,229,558 through 2048

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

- Separate financial statements issued for each pension plan
- All three plans received unmodified audit opinions

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

Future accounting standards

- GASB Statement No. 84: Fiduciary Activities effective for fiscal year 2021
- GASB Statement No. 87: Leases – effective for fiscal year 2022
- GASB Statement No. 80: Majority Equity Interests – effective for fiscal year 2021
- GASB Statement No. 91: Contract Debt Obligations – effective for fiscal year 2023
- GASB Statement No. 82: Omnibus – effective for fiscal year 2022
- GASB Statement No. 92: Replacement of Intertank-Bank Owned Fleet – effective for fiscal year 2022
- GASB Statement No. 84: Public Pensions and Public-Private Partnerships – effective for fiscal year 2023
- GASB Statement No. 86: Subscription-Based Information Technology Arrangements – effective for fiscal year 2024
- GASB Statement No. 97: Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – effective for fiscal year 2024

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

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

Board of Water and Light – City of Lansing

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

Board of Water and Light – City of Lansing

Discussion

Jodi Dobson, Partner
D-602 242 2489
jodi.dobson@bakertilly.com

Jeff Hurdia, Senior Accountant
D-602 242 0764
jeff.hurdia@bakertilly.com

Commissioner Ross inquired whether Ms. Dobson would be continuing with the external audits with Baker Tilly for BWL. He also asked for additional detail regarding the upcoming fiduciary responsibility changes and how it will affect BWL pension plans. Ms. Dobson responded that there are 40 individuals that work with municipal utilities and rotation among their staff is an option. Ms. Dobson also responded that there isn't a significant affect on BWL's financial statements as the pension plans are already incorporated into them.

Commissioner Lenz noted the diverging of income increasingly relying on electric generation, that at some point steam and water would have a zero impact for net income and would cost money to operate, and the role of steam and water is something that needs to be discussed for the strategic plan.

Motion by Commissioner Price, **Seconded** by Commissioner Ross to forward to the Board Meeting for consideration the Acceptance of the Resolution for the 2020 Audited Financial Statements.

Motion Carried by the following Roll Call Vote:
 Yeas: Commissioners Lenz, Graham, Price, and Ross
 Nays: None

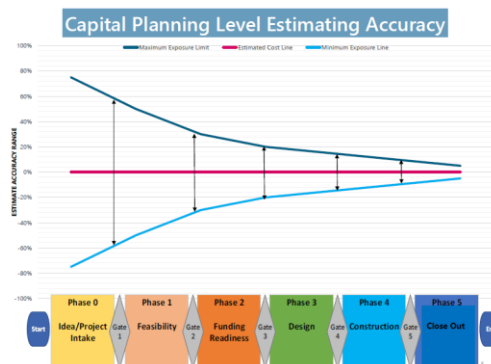
July YTD Financial Summary

CFO Heather Shawa gave a review of the July 2020 Financial Summary. Ms. Shawa reported the following: revenue was \$34.6 million compared to budget of \$33.1 million; operating expenses were \$21.6 million compared to budget of \$25.7 million; and Net Income was positive at \$9.3 million compared to budget of \$3.5 million.

Commissioner Lenz commented that BWL is doing an outstanding job of maintaining revenues as the audited financial statements and July financial summary includes the shutdown of General Motors and COVID19.

Capital Project Exceedance (CPE) Revision

CFO Ms. Shawa presented the Capital Project Exceedance Revision.



Finance Committee Meeting September 8, 2020

Chair Lenz commented that the resolution is going to change the benchmark point of when projects are monitored, allow the projection of more accurate project budgets, and provide tighter control on project costs.

Commissioner Zerkle questioned when the Capital Project Exceedance (CPE) Budget is brought to the Board. She also asked when is staff asked for the ideas for that particular Budget. CFO Shawa responded that the staff is asked for ideas in November and the CPE Budget is presented to the Board in May. Currently a project is brought forward as an exceedance based on the project intake phase. General Manager Peffley responded that during the early phases there may be an overestimate of costs and then the amount requested and received is spent. The resolution will narrow down the project amount requested to ensure capital funds are available for all of the necessary utility priorities.

Commissioner Ross commented on the inefficiencies in the CPE budget process. Previously there were transparencies in the budget process of the top 80% of the projects by dollar volume which hasn't carried through this year. Commissioner Ross added that in the amendment of the exceedance approval there are some key terms that are not defined. General Manager Peffley responded that transparency and tracking in the top 80% of the projects can be reinstated at the Chair's request at a Finance Committee meeting. CFO Shawa responded that she can have the capital project information of line items by project sent out to the Finance committee. CFO Shawa also responded that there are guidelines within an operational capitalization policy which defines annual and planned projects and can be sent to the committee.

Commissioner Zerkle asked about the procedure included in the resolution regarding the General Manager revising the procedure. Chair Lenz stated the resolution states that the General Manager will report excessive exceedances. Commissioner Ross commented that there should be definitions added and recognition of additional reporting; and the Board should not manage the projects but should be given the necessary tools for effective oversight, and for those reasons he will be voting no.

Motion by Commissioner Price, **Seconded** by Commissioner Graham to forward the Capital Project Exceedance Revision Resolution to the full Board for consideration.

Motion Carried by the following Roll Call Vote:
Yeas: Commissioners Lenz, Graham, and Price
Nays: Commissioner Ross

Internal Audit Status Report

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



Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
September 8, 2020

Other Items

1. Internal Audit Outreach With Other BWL Departments
2. Update on Ongoing Education and Certification of IA Staff



Finance Committee Meeting
9/8/2020

4

Overview

- Status Report
- Other Items



Finance Committee Meeting
9/8/2020

2

Status Report

FY 2020 Audit Engagement in Progress:

1. Energy Risk Management

FY 2021 Audit Engagements (Beginning Stages):

1. MPPA and MISO Billings
2. IT - Cybersecurity Process
3. IT - Vulnerability Assessments
4. PCards

Note: A request for proposal (RFP) was sent out to several IT audit consultant vendors for bids for #2 and #3 above. Once received, the bids will be evaluated by the vendor selection committee, then the best vendor will be selected.



Finance Committee Meeting
9/8/2020

3

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 communicating information about the activity or process being examined and will make a

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

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.
- Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit.



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

- 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, 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



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

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.



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

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

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

Responsibility and Scope:

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



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

Organization:

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

Internal Audit:

- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.
- Performing consulting and advisory services related to governance, risk management, and control as appropriate for the organization.
- Reporting periodically on Internal Audit's purpose, authority, responsibility, and performance relative to its plan.
- Meeting periodically with the Finance Committee to review Internal Audit's scope, staffing, training/development, budget, and audit schedule. In addition, the Director of Internal Audit



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

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

Internal Audit Plan:

At least annually, the Director of Internal Audit will submit ~~to the Board and General Manager~~ an internal audit plan to the Board for its review and Board approval. The internal audit plan will be developed using a risk-based methodology, including input of the General Manager and the Board. The Director of Internal Audit will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Board ~~and the General Manager~~ through periodic activity reports.

Reporting and Monitoring:

A written report will be prepared and issued by the Director of Internal Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective action taken or to be taken regarding the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Internal Audit will be response for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Director of Internal Audit will periodically report to the Board ~~and Senior Management~~ on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Senior Management and the Board.

Periodic Assessment For Quality Assurance and Improvement:

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

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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.

Lansing Board of Water and Light

RESOLUTION TO AMEND UTILITY SYSTEM REVENUE BOND RESOLUTION

A RESOLUTION TO AUTHORIZE:

- An amendment to modify the interest rate parameter of variable rate Bonds to complete the Delta Energy Park.

WHEREAS, the City of Lansing, acting by and through the Lansing Board of Water and Light, from time to time issues its utility system revenue bonds payable from revenues of the water supply, steam, chilled water and electric utility system under the provisions of Act 94, Public Acts of Michigan, 1933, as amended; and

WHEREAS, on March 27, 2018 the Board approved the Amended and Restated Bond Resolution (as amended on March 26, 2019, the “Bond Resolution”), which authorized issuance of utility system revenue bonds in order to finance the costs of various improvements, including Delta Energy Park, defined as the “Series 2019 Project” in the Bond Resolution; and

WHEREAS, in order to finance costs of the Series 2019 Project, the Bond Resolution authorized the utility system revenue bonds in an amount not-to-exceed \$500,000,000 (the “Series 2019 Bonds”), and authorized the Chief Financial Officer to sell the Series 2019 Bonds without further resolution of this Board at a maximum interest rate not-to-exceed 5.50% per annum; and

WHEREAS, on June 25, 2019 the Board delivered the \$319,875,000 Utility System Revenue Bonds, Series 2019A as the first series of the Series 2019 Bonds; and

WHEREAS, the Board intends to sell additional series of Series 2019 Bonds to finance costs to complete the Series 2019 Project, with such series designation as determined at the time of sale by the Chief Financial Officer to reflect the sequence and the year of sale or delivery of such series of Series 2019 Bonds, currently anticipated to be January 2021 (the “Series 2021 Bonds”); and

WHEREAS, based on the advice of PFM Financial Advisors LLC (the “Municipal Advisor”), if the Board sells a portion of the Series 2021 Bonds as variable rate Bonds, the Board may obtain more favorable prior redemption provisions and reduce interest expense; and

WHEREAS, standard interest rate provisions for variable rate Bonds, such as the default rate formula or post-tender rate mode formula, provide that the interest rate shall not exceed the maximum rate permitted by law; and

WHEREAS, the Board wishes to amend the maximum interest rate provision of the Bond Resolution to avoid any ambiguity and correct and supplement the Bond Resolution to facilitate sale of Series 2021 Bonds as variable rate Bonds.

NOW, THEREFORE, BE IT RESOLVED THAT:

Section 1. Definitions. All terms not defined herein shall have the meanings set forth in the Bond Resolution.

Section 2. Amendment to Maximum Interest Rate. Section 33 of the Bond Resolution is hereby deleted and replaced with the following:

Section 33. Sale of Series 2019 Bonds. The Chief Financial Officer is authorized, in consultation with the Municipal Advisor, to accept an offer to purchase the Series 2019 Bonds without further resolution of this Board. This authorization includes, but is not limited to, determination of original principal amount of the Series 2019 Bonds; the prices at which the Series 2019 Bonds are sold; the date of the Series 2019 Bonds; the schedule of principal maturities and whether the Series 2019 Bonds shall mature serially or as term bonds; provisions for early redemption, if any, including mandatory redemption of term bonds, if any; the interest rates and payment dates of the Series 2019 Bonds; and application of the proceeds of the Series 2019 Bonds. Approval of the matters delegated to the Chief Financial Officer under this resolution may be evidenced by her execution of the Bond Purchase Agreement for the Series 2019 Bonds or other offer to purchase the Series 2019 Bonds, or a certificate of award of sale, or the Official Statement.

The maximum interest rate of the Series 2019 Bonds sold as fixed rate Bonds shall not exceed 5.50% per annum. The maximum interest rate of the Series 2019 Bonds sold as variable rate Bonds shall not exceed the maximum rate permitted by law, and in the case of any variable rate Bonds issued initially in a fixed rate mode, such initial fixed rate shall not exceed 5.50%. The purchase price for the Series 2019 Bonds, exclusive of any original issue discount or premium, shall not be less than 97% of the principal amount of the Series 2019 Bonds, plus accrued interest, if any. In making such determinations the Chief Financial Officer is authorized to rely upon data and computer runs provided by the Municipal Advisor.

Section 3. Amending Resolution. The Board hereby determines that this resolution is adopted for the purpose of amending and supplementing the Bond Resolution in order to cure an ambiguous provision and correct and supplement a provision contained in the Bond Resolution, and does not have a material, adverse effect on the interests of the Registered Owners of the Bonds. Therefore, pursuant to the provisions of Section 28(a) of the Bond Resolution, this resolution can be adopted without the consent of or notice to the Registered Owners of any of the Outstanding Bonds.

Section 4. Severability and Paragraph Headings. If any section, paragraph, clause or provision of this resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the other provisions of this resolution. The paragraph headings in this resolution are furnished for convenience of reference only and shall not be considered to be part of this resolution.

Section 5. Conflicting Resolutions; Effective Date. All resolutions and parts of resolutions insofar as they conflict with the provisions of this resolution are hereby rescinded. This resolution shall become effective immediately.

We hereby certify that the foregoing is a true and complete copy of a resolution duly adopted by the Board of Commissioners of the Lansing Board of Water and Light at a Regular meeting held on _____, _____, 2020, at 5:30 p.m., Eastern Time, and that said meeting was conducted and public notice of said meeting was given pursuant to and in full compliance with the Open Meetings Act, being Act 267, Public Acts of Michigan, 1976, and that the minutes of said meeting were kept and will be or have been made available as required by said Act 267.

We further certify that the following Commissioners were present at said meeting _____ and that the following Commissioners were absent _____.

We further certify that Commissioner _____ moved adoption of said resolution, and that said motion was supported by Commissioner _____.

We further certify that the following Commissioners voted for adoption of said resolution _____ and that the following Commissioners voted against adoption of said resolution _____.

We further certify that said resolution has been recorded in the Resolution Book and that such recording has been authenticated by the signature of the Chairperson and Corporate Secretary.

Chairperson

Corporate Secretary



Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
November 10, 2020

Overview

- Audit Progress Report
- Other Items

Audit Progress Report

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

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

Audit Progress Report (Cont'd)

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

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

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

Other Items

1. Update on Ongoing Education and Certification of IA Staff