



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

**Tuesday, July 21, 2020 ♦ 5:00 P.M.**  
1201 S. Washington Ave., Lansing, MI

**AGENDA**

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

Due to public safety concerns resulting from the COVID-19 Pandemic, this meeting will be conducted via WebEx Conferencing. Instructional options to be in attendance are as follows:

**1. Event address for Attendees:**

<https://lbwlevents.webex.com/lbwlevents/onstage/g.php?MTID=e41a4c5de360b8aeb48ffaa8b4a91a6bf>

**Event number for Attendees:** 132 443 4869

**Event Password:** ftDmj3qBm33

**2. Audio conference:** United States Toll +1-408-418-9388 **Access code:** 132 443 4869

**Call to Order**

**Roll Call**

**Public Comments on Agenda Items**

1. Finance Committee Meeting Minutes of May 26, 2020 ..... **TAB 1**
2. May Year to Date Financial ..... **UPDATE**
3. Internal Audit Open Management Responses Update ..... **TAB 2**
4. Internal Audit Status Report & Internal Audit Work Plan ..... **TAB 3**
5. Internal Audit Charter
  - a. Current Internal Audit Charter ..... **TAB 4**
  - b. Proposed Internal Audit Charter ..... **TAB 5**
  - c. Internal Audit Charter Resolution ..... **TAB 6**

## Other

### Adjourn

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](mailto:mdenise.griffin@lbwl.com) or utilize TTY by dialing 7-1-1 (a statewide **telephone** relay number that connects deaf, deaf-blind, hard of hearing, and/or speech impaired people who use text telephones (**TTYs**) with standard (voice) **telephone** users). A 24-hour notice may be needed for certain accommodations. An attempt will be made to grant all reasonable accommodation requests.

STATE OF MICHIGAN EXECUTIVE ORDER #2020-4: Declaration of a statewide State of Emergency due to the spread of the novel coronavirus (COVID-19).

EXECUTIVE ORDER 2020-75 - Temporary authorization of remote participation in public meetings and hearings, public bodies subject to the Open Meetings Act, including boards, commissions, committees, subcommittees, authorities, councils and nonprofit boards, can use telephone- or video- conferencing methods to continue meeting and conducting business during the coronavirus (COVID-19) public health crisis, so long as they follow certain procedures to ensure meaningful access and participation by members of the public body and the general public. (**Rescission of Executive Order 2020-48**)

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Posted: 7-13-2020

M. Denise Griffin

BWL Corporate Secretary

(517) 702-6033





Operating Budget and Forecast

- FY 2021 Income Statement
- FY 2021 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow

Account	2020	2021	2022	2023	2024	2025	2026
Operating Income	1,234,567	1,345,678	1,456,789	1,567,890	1,678,901	1,789,012	1,890,123
Operating Expenses	987,654	1,098,765	1,209,876	1,320,987	1,432,098	1,543,209	1,654,320
Operating Profit	246,913	246,913	246,913	246,913	246,913	246,913	246,913



Operating Budget and Forecast

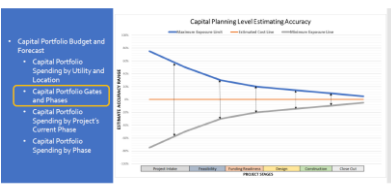
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Capital Portfolio Budget and Forecast

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

Account	2020	2021	2022	2023	2024	2025	2026
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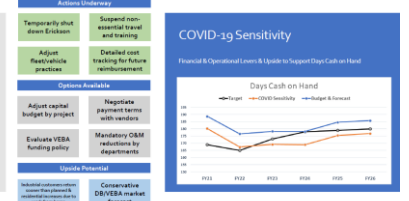
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COVID-19 Impact & Response

- Economic Impact
- Customer Protection
- Employee Protection
- Employee Contribution

Next Steps

- Finance Committee to accept, as presented, the Operating and Capital Forecasts for FY 2021-2026 and recommend for Board of Commissioners' approval on May 26, 2020.
- Board of Commissioners to approve, as presented, the FY 2021 annual budget and file with the City Clerk within 30 days of approval.
- City Charter calls for budget adoption by June 1 and filing with the City Clerk within 30 days of adoption.
- Board of Commissioners to accept, as presented, the Operating and Capital Forecasts for FY 2021-2026 and submit the Capital Forecast to the Mayor prior to October 4, 2020.
- City Charter calls for submission of the six-year capital improvements plan to the Mayor prior to October 4.

Options Available

- Adjust capital budget by project
- Evaluate VESA funding policy
- Update Potential
- Conservative DB/VEBA market forecast

Commissioner Ross asked for additional information about City Works and what cost strategies will be implemented to improve competitiveness in the next rate strategy. Ms. Shawa stated that City Works is part of the asset management platform and database. Executive Director of Operations, Mr. Dave Bolan, added that it is a computerized maintenance management system which includes asset management information and the work order system. The system is also used by the city of Lansing. Ms. Shawa stated cost strategies being implemented include a recommendation to pool fleet vehicles and consolidation of departments.

Commissioner Lenz asked how GIS was being utilized and was the development of the software being done by BWL staff or an outside vendor. Ms. Shawa responded that an outside vendor, SSP, was developing the software and is working with BWL BSmart employees. Commissioner Lenz asked if the software was being utilized to identify assets in the field from the operations and maintenance area. Mr. Bolan responded that there is an application that is on top of the GIS system. When the work orders are cut from the asset information in City Works, the information is sent out to the field. There are horizontal assets which are geographically placed process such as wires.

Commissioner Zerkle asked when the vendor has completed the software will BWL be totally responsible for the program. Mr. Bolan responded that BWL's GIS department will be responsible for maintaining the data. Commissioner Zerkle asked about a public relations presentation regarding rates not changing for a year. GM Peffley responded that the

competitiveness of the rates would be evaluated and that there are plans in place for more efficiencies.

Commissioner Merrill asked if there are any established external benchmarks for what an adequate return on assets should be for a municipal utility. Finance Manager Scott Taylor responded that metrics provided by APPA do not include return on assets. He said this is partly due to the requirements being unique for each utility based on their cost of borrowing, expected inflation rate, and debt ratio.

Commissioner Ross asked for the difference between the previous and current targets. CFO Shawa responded that the previous target for the current fiscal year was 4.66% and the current target for the next fiscal year and forecast period is 4.14%. Commissioner Ross asked if the cash reserve policy identifies the key items on which money is spent in order that there is money on hand in reserve in case of stress. CFO Shawa affirmed. Commissioner Ross also asked about the downward trending items and the upward trending items. CFO Shawa responded that downward and upward trending items were indicated on the slide to signify downside and upside potential in the budget and the remaining items were stated as facts.

Commissioner Jester asked for additional information on the performance expectation of the Erickson plant over the next few years considering lower wholesale market prices. GM Peffley responded that the Erickson plant's official retirement date is 2025 but it will not be generating electricity entirely throughout that time due to the market.

Commissioner Leek asked if the Delta Energy Park June 2021 date is not expected to be met how far away is the goal date. GM Peffley responded that commercial operations original target was June 2021 and there could be a minimum of a two-month delay. Commissioner Ross asked what the cost difference would be between the target dates. GM Peffley responded that the capacity has to be purchased for a whole year and the cost difference is \$13 million.

Commissioner Lenz asked about the difference in the net income for 2026 of \$20 million and the net income of \$1.5 million for this year. CFO Shawa responded that the net income is impacted in FY2021-2022 due to depreciation of the Delta Energy Plant.

Commissioner Merrill asked about the cost of service model for water indicating that there would be an expected increase of 7.25% per year over a three-year period. CFO Shawa responded that there is a cost of service model completed every year and the rate strategy for this year includes, along with electric, a detailed study by rate class for water and updated steam study as well. The rate increase is approximately \$0-\$3 per month based on an average customer's consumption.

Commissioner Zerkle asked how competitive the 21.75% rate increase was. GM Peffley responded that there is a wide variation in water cost due to the quality of treatment and he would follow up and provide the commissioners with the information.

Finance Manager, Mr. Scott Taylor, spoke about the Capital Portfolio Budget and Forecast.

Commissioner Lenz inquired about the project estimated cost and whether the project is being attuned to meet the first initial cost in the projected capital budget. Mr. Taylor responded that

most of the capital budget projects are in the project intake phase. Several multi-year projects will have updated revised numbers due to the phase of the project and each progressive phase is expected to have less variation. GM Peffley responded that the orange line on slide 17 represents the project cost which is brought to the Commissioners for approval and if there is a deviation by 15% the Commissioners will be provided the reasons.

Commissioner Zerkle inquired whether a Capital Exceedance approval would be requested every year if there is a multiple year project in which costs go up every year. GM Peffley responded that an updated budget is made to be brought back to the Commissioners one time.

CFO Shawa spoke about the scenario that was created for the potential impact of COVID-19 highlighting reduced retail electric lode and water sales for commercial and industrial customers, reducing fuel and purchased power expense for reduced sales to retail customers, increasing bad debt expense, and reducing delayed payment charge (DPC) revenue from waived DPCs. Days cash on hand is the metric most affected by the COVID-19 pandemic economics. Temporary shutdown of the Erickson plant, suspending non-essential travel and training, adjusting fleet and vehicles practices, and detailed cost tracking for future reimbursement have been put into action.

Commissioner Zerkle asked if there was an expected date for water shut off for unpaying customers after the stay safe order is lifted. GM Peffley responded that will be decided after the order is lifted.

GM Peffley spoke about the COVID-19 economic impact and response, employee protection, customer protection, and employee contribution. He reported that approximately 15% of commercial customers aren't expected to return but some businesses have been restarting operation. Increased bad debt and waived delayed payment charges have brought about the need for the creation of a new policy. The turnoff pool is usually around 600 but has increased to 6,000 and it will take about three weeks for notifications to be sent out after the stay at home order is lifted. GM Peffley reported that a campaign for employees to donate to Pennies for Power will be implemented on June 1, 2020. No BWL employees have tested positive for COVID-19, and there have been no furloughs or layoffs. GM Peffley also stated that all out of state travel, conferences and training have been suspended.

Commissioner Price recommended that Commissioners abide by the travel restrictions.

**Motion** by Commissioner Thomas, Seconded by Commissioner Mullen, to forward the Resolution for the FY21 Operating Budget and Forecast to the full Board for consideration.

**Motion** Carried by the following Roll Call Vote:

Yeas: Commissioners Ross, Graham, Leek, Lenz, Mullen, Price, Thomas and Zerkle

Nays: None

**Other**

None.

**Adjourn**

Commissioner Ross adjourned the meeting at 5:48 p.m.

Respectfully submitted  
Ken Ross, Chair  
Finance Committee





# Follow-up to Internal Audit Findings & Recommendations

Finance Committee 7/21/20

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

## ▶ Procurement

- ▶ Improve controls related to maintenance of vendor information - initial ECD (Expected Completion Date) 6/30/20, revised ECD 8/31/20, delay primarily due to recent staffing changes
  - ▶ Completed action - accounts payable procedures have been updated; # of employees with conflicting authorization has been reduced from 11 to 1; purchasing manager has begun conducting weekly reviews of vendor changes
  - ▶ Remaining action - develop purchasing procedures for adding, disabling, and deleting vendors; # of employees with conflicting authorization reduced from 1 to 0
- ▶ Standardize and centralize storage of purchasing documentation - ECD 10/31/20
  - ▶ Completed action - processes and procedures within the purchasing department have been revised to ensure that all their purchasing documents are stored in a centralized manner
  - ▶ Remaining action - processes and procedures within departments external to the purchasing department must be revised to ensure that all their purchasing documents are stored in a centralized manner

# Open Actions (continued)

- ▶ Cash Management & Treasury (new)
  - ▶ Improve controls surrounding daily accounts payable disbursements - ECD 12/31/20
    - ▶ Completed action - additional review of disbursements has begun
    - ▶ Remaining action - finalize a more complete resolution including possible additional report development (dependent upon 3<sup>rd</sup> party developer availability), reviewer designation, and more formalized documentation of review procedures
  - ▶ Establish more centralized and comprehensive transaction approval documentation for significant transactions - ECD 9/30/20
    - ▶ Remaining action - detailed review of existing two documents, finalize additional documentation as needed, consolidate and make available in a centralized manner

# Closed Actions

## ▶ Succession Planning

- ▶ Identify all critical positions as soon as possible - ECD 12/31/18, actual completion date 4/30/20, delay primarily due to reexamination of process for identifying critical positions and staff retirement
  - ▶ All positions reviewed, identified top 20 overall, top 20 management and above, top 20 bargaining, and top 20 non-bargaining
- ▶ Review and update policy and procedures - ECD 6/30/18, actual completion date 6/30/20, delay also primarily due to reexamination of process for identifying critical positions and staff retirement

## ▶ Vegetation Management

- ▶ Discuss current practice with internal experts to ensure best practice - ECD 7/31/20, actual completion date 6/30/20
  - ▶ Added weekly progress meetings, began updating monthly budget spreadsheets as quarter sections are planned out, communication strategies improved to better mitigate customer and government agency concerns, utilizing additional cost tracking aids, added a safety officer for inspections and other needs

## Closed Actions (continued)

### ▶ Cybersecurity Policies

- ▶ Update the communications technology policy to better address cyber security - ECD 12/31/19, actual completion date 5/26/20
  - ▶ Updated policy was approved by the Board of Commissioner in May 2020

### ▶ Procurement

- ▶ Review the cost vs benefit of SAP programming changes to modify the approval process - ECD 6/30/20, actual completion date 6/30/20
  - ▶ SAP changes were determined to be cost prohibitive however additional internal control in the form of quarterly reviews/approvals will be conducted at the purchase order level to mitigate risk
- ▶ Improve controls and documentation related to sole-source justifications and exclusions - ECD 6/30/20, actual completion date 6/30/20
  - ▶ Standard operation procedures related to sole source justification and documentation of exclusions were formalized and implemented

## Closed Actions (continued)

- ▶ Cash Management & Treasury (new)
  - ▶ Ensure that bank and investment account reconciliations have evidence of review and approval from supervisor and allow for a designee to perform when appropriate - ECD 5/31/20, actual completion date 7/10/20
    - ▶ The general accounting manual and procedures were updated to allow for a designee reviewer and to clarify the requirement for documentation of review and approval
  - ▶ Policies and procedures regarding online bank portal entitlements should be formalized and controls over wire template creation should be enhanced - ECD 6/30/20, actual completion date 7/10/20
    - ▶ The procedure for establishing and maintaining online bank portal entitlement has been expanded and formalized, JP Morgan has confirmed that wire template creation has been modified as requested



# Internal Audit Status Report

Presented by:

Wesley Lewis

Director of Internal Audit

Finance Committee Meeting

July 21, 2020



# Overview

- **FY 2020 Audit Plan Progress Report**
- **Proposed FY 2021 Audit Plan**
- **Proposed Revised Audit Charter**
- **Action Items**

# **FY 2020 Audit Plan Progress Report**

## **Engagements Completed:**

- 1. Cash Management and Treasury**
- 2. Fixed Assets**

## **Engagement in Progress:**

- 1. Energy Risk Management**

# Proposed FY 2021 Audit Plan - Background

## Basis for Plan:

1. Feedback was requested and received from Senior and Middle Management, including confirmation of the audit universe consisting of fifteen major business areas.
2. Risk assessment was conducted by inputting the audit universe information and feedback into our new audit management system. Risk scores were assigned to each of the major business areas, total scores were calculated, then each area was risk ranked. The top six areas were selected and included in the audit plan.
3. One business process in each of the top six major business areas was selected for inclusion in the audit plan. Consideration was given to rotational audits, business processes that hadn't been audited in more than two fiscal years, and business processes that have never been audited.
4. Other types of engagements were considered and budgeted hours are included in the audit plan accordingly.

# Proposed FY 2021 Audit Plan – Highlights

**Top Six Engagements for FY 2021** (as discussed and agreed with Senior Management):

1. **Information Technology** – Cybersecurity Process (*First Time Audit*)
2. **Corporate Governance** – BWL Strategic Plan and Hotline (*First Time Audit*)
3. **Purchasing** – Purchase Card (P-Card) Usage and Control
4. **Revenue and Accounts Receivable** – Unbilled Accounts Receivable (*First Time Audit*)
5. **BWL Other** - IT Vulnerability Assessments (Combine with Cybersecurity in #1 above) (*First Time Audit*)
6. **Reliability Compliance & Market Operations** – MPPA and MISO Billings

# Proposed FY 2021 Audit Plan Details

Planned Audits:	Estimated Hours
<u>Information Technology</u> – Cybersecurity Process	400
<u>Corporate Governance</u> – BWL Strategic Plan and Hotline	500
<u>Purchasing</u> - PCards	400
<u>Revenue and Accounts Receivable</u> – Unbilled Accounts Receivable	500
<u>BWL Other</u> – IT Vulnerabilities Assessments	400
<u>Reliability Compliance and Market Operations</u> – MPPA and MISO Billings	300
Other Engagements and Projects:	
Ongoing Management Assistance, (including Proactive Audit Engagements)	400
<u>New Customer Information System:</u> Pre-Implementation Audit	300
Special Projects and Requests	300
<b>Total Required Hours</b>	<b>3,500</b>

# Proposed Revised Audit Charter

The purpose of the proposed revised audit charter is to do the following:

1. **Reinforcement of Internal Audit's Free Access To Data, Books, and Records**
2. **Clarify Relationship Between The Internal Auditor and the General Manager**
3. **Introduction of Proactive Audits Concept**

## **Reinforcement of Internal Audit's Free Access To Books and Records:**

- Besides free, access must be ongoing and unfiltered. This enables Internal Audit to meet and maintain its independence and objectivity required by the Institute of Internal Auditors' (IIA) Professional Standards, and the non-conflicting standards of other supporting organizations (ISACA, ACFE, and AICPA). It also enables it to be the independent, objective assurance, and consulting function required by the standards. And, it can decrease the amount of time needed to obtain the same information in separate request to the business.
- The role of Internal Audit's access is also supported in applicable laws and regulations (i.e., the HIPAA Law of 1996, Sections 1178 and 1179). Compliance with the privacy and security requirements of the laws and regulations pertaining to the access of Internal Audit and others is mandated by those entities, along with the Board of Commissioners.

# Proposed Revised Audit Charter (Cont'd)

## Clarify Relationship Between The Internal Auditor and the General Manager:

- Internal Audit reports directly to the Board of Commissioners, but must successfully collaborate, establish, encourage, maintain, cultivate its on-going relationship with the General Manager, management, employees, and all other stakeholders at the BWL, and vice versa.
- The short and long-term success of the BWL is dependent upon this.

# Proposed Revised Audit Charter (Cont'd)

## Introduction of Proactive Audits Concept:

- Proactive audits is a mindset of approaching audits with the value set in mind.
- The concept is to emphasize the need for Internal Audit to be proactive, which is required in the standards (see the IIA standard below) This is something that the industry is and has been moving forward on. And, it's not a separate type of auditing per se.
- Using information analytics and other audit and analysis tools, in a non-traditional and non-conventional way, to proactively look for potential issues that could represent major risks to the BWL and to communicate the results to management right away for their timely review and action is a very good program to implement.
- Our ACE Information Analytics tool can be used to look for and identify any potential errors or irregularities that may be present in information and data. And, ACE will add the characteristics of our data into its profile for analysis going-forward (artificial intelligence). This is forward-looking, preventative, and can be predictive.

## (IIA) Standard #2100 (Nature of Work):

- *“The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.”* IIA’s International Professional Practices Framework (IPPF) – 2017 Edition



# Proposed Revised Audit Charter (Cont'd)

**Importance:** BWL needs to be able to analyze and identify errors and/or irregularities that may be present in information and data, proactively to determine if they possibly pose potential, major risks that management needs to take action on right away to either eliminate or effectively mitigate. This may be unlikely in the execution of more traditional internal audit engagements, which tend to be retroactive looking, detective, and capture past snapshots in time.

## **Benefits and Value Adds of Proactive Audits:**

- IA will be able to report errors and/or any irregularities found in information and data to management in a more timely fashion for management's review and action. This could help the BWL achieve cost savings and avoid disasters in the short and long-term.
- Examples include the analysis of SAP vendor, customer, and employee master file information, financial transactions (i.e., customer billings and cash receipts, vendor payments, etc.), comparison of all terminated employees and retirees with active user accounts in Active Directory (system access), and analysis of other types of information in other BWL information databases that may or may not be interfaced with SAP.
- Provides the foundations for continuous auditing and monitoring.
- Creates additional opportunities for IA and management to work together in corroborative ways to help the BWL meet its short and long-term objectives, which helps to create, maintain, and increase stakeholder value.
- This helps Internal Audit to be more efficient and effective with executing its mission.

# Action Items

- Proposed FY 2021 Audit Plan
- Proposed Revised Internal Audit Charter

We recommend the approval of both.



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

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### **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

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documentation required to carry out its mission<sup>1</sup>. 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

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<sup>1</sup> 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

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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

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- Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit.
- Determining if management, employee and independent contractor actions are compliant with policies, procedures, standards, laws, regulations, and contracts.

### Internal Audit:

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

### **Internal Audit Plan:**

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

### **Reporting and Monitoring:**

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

The internal audit report may include management's response and corrective action taken or to be taken regarding the specific findings and recommendations. Management's response,



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

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whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Internal

Audit will be response for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

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

### **Periodic Assessment For Quality Assurance and Improvement:**

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Director of Internal Audit will communicate annually to the General Manager and the Board on Internal Audit's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

### **Internal Audit Charter Approval**

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

*Approved by the Board of Commissioners on Tuesday, September 24, 2019*



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

### General:

This Charter defines the internal audit function at the Lansing Board of Water and Light (LBWL) and the commitment to the professional practice of internal auditing by the Board of Commissioners (Board) and Senior Management. It grants Internal Audit the authority to carry out its mission as set forth by the Board, Finance Committee, and the Chair of the Board, ~~and General Manager.~~

This charter's content and requirements primarily originate from the professional standards of the Institute of Internal Auditors (IIA). In addition, the professional standards of the Information Systems Audit and Control Association (ISACA), Association of Certified Fraud Examiners (ACFE), and American Institute of Certified Public Accountants (AICPA), contributed to this charter's development. All of these standards define mandatory requirements that the internal audit function must meet in order to properly execute its mission and fulfill its purpose as defined in this charter and required by the Board.

The intent of the Board is to ensure that Internal Auditors have free access to all LBWL books and records as required in the performance of their duties. The Board requires the Internal Auditor to properly safeguard any information obtained in the course of performing these duties and will be accountable to the Board for ensuring its protection. Recognizing that the Internal Audit function must maintain independence, while working in a positive, collaborative manner within the organization, the Internal Auditor will strive to maintain a high degree of communication with the General Manager and Senior Management at all times and provide them with whatever briefings are deemed prudent on a mutually agreed frequency.

### 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.

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

### 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.

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 mission<sup>1</sup>. 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

<sup>1</sup> 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

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 (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 Standard standards of the other aforementioned organizations. The IIA's Practice The practice Advisories advisories, Practice practice Guides guides, and Position Papers papers, and other guidelines of the aforementioned organizations will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to LBWL's relevant policies and procedures and Internal Audit's standard operating procedures manual. And, as supplemental guidance for the performance of audits, Internal Audit shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office.

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Internal Audit will remain free from interference by any element in LBWL, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. In addition, Internal Audit will audit and evaluate the organization's processes and functions using a risk-based approach. Accordingly, Internal Audit will not implement internal controls, implement procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment. Internal Audit will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined and will make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

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

### Responsibility and Scope:



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

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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.
- 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.



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

- 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, and adhering to the IIA standards and non-conflicting standards of the other aforementioned organizations. 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. The internal audit plan does not preclude proactive auditing engagements. Proactive auditing will be referenced in the plan and the details and results of these engagements will also be communicated to the Board, General Manager, and Senior Management.

### 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 responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared. In addition, the Director of Internal Audit will periodically provide the Board with a synopsis of ongoing proactive auditing activities.

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



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

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 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.

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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.