



FINANCE COMMITTEE MEETING

AGENDA

November 5, 2019

6:00 p.m.—1201 S. Washington Ave.

Lansing, MI — REO Town Depot

Board of Water & Light Headquarters

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of September 10, 2019 **TAB 1**
2. September YTD Financial Summary **TAB 2**
3. First Supplemental Utility System Revenue Bond Resolution **TAB 3**
4. Internal Auditor Status Report..... **TAB 4**

Other

Adjourn

**FINANCE COMMITTEE
Meeting Minutes
September 10, 2019**

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI on Tuesday, September 10, 2019.

Finance Committee Chair Ken Ross called the meeting to order at 7:14 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, Tony Mullen, and David Price. Also present: Beth Graham, Joseph Graves Jr., Tracy Thomas, and Sandra Zerkle; and Non-Voting Commissioners Michael Froh (Meridian Township) and Larry Merrill (Delta Township).

Absent: Commissioner David Lenz

The Corporate Secretary declared a quorum.

Public Comments

None.

Approval of Minutes

Motion by Commissioner Price, **Seconded** by Commissioner Mullen, to approve the Finance Committee meeting minutes of July 16, 2019.

Action: Motion Carried.

Baker Tilly External Audit Report and Resolution

Committee Chair Ross introduced external auditor Beth Ryers, Firm Director at Baker Tilly Virchow Krause, LLP. Ms. Ryers presented and highlighted the external audit report which included an audit overview, observations and recommendations, and required government communications. BWL received an unmodified or clean opinion which is the highest level of assurance provided.

Ms. Ryers' presentation was as follows:



**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**

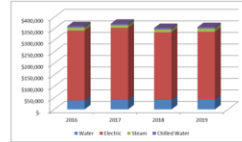
Controls reviewed in key transaction areas	Disbursements
	Payroll
	Billings
	Cash and investments
	Capital assets
	Information technology
	Financial reporting

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

- Reported net income of \$32,400,000
- Bond coverage was met in 2019
- There were no material weaknesses reported
- Implemented GASB 89

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

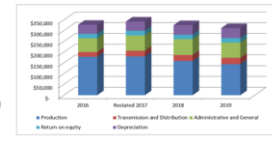
Operating Revenues – Four-year Comparison (in thousands)



	2016	2017	2018	2019
Water	\$ 35,791	\$ 40,769	\$ 45,324	\$ 42,811
Electric	\$ 303,245	\$ 123,205	\$ 295,361	\$ 284,205
Steam	\$ 1,683	\$ 14,494	\$ 12,072	\$ 9,749
Other water	\$ 6,718	\$ 8,831	\$ 8,102	\$ 8,131
Operating Revenue	\$ 347,437	\$ 177,309	\$ 360,862	\$ 344,996

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

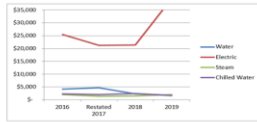
Operating Expenses – Four-year Comparison (in thousands)



	2016	Revised 2017	2018	2019
Production	\$ 139,904	\$ 102,219	\$ 109,314	\$ 104,277
Transmission and Distribution	21,389	24,930	27,913	29,879
Administration and General	64,027	72,158	78,639	75,864
Majority equity	20,094	21,892	20,992	21,111
Depreciation	20,262	23,070	25,170	26,147
Operating Expenses	\$ 225,776	\$ 184,279	\$ 242,136	\$ 237,278

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

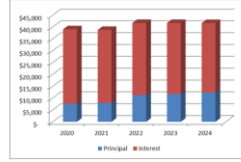
Operating Income – Four-year Comparison (in thousands)



	2016	Revised 2017	2018	2019
Water	\$ 4,099	\$ 4,628	\$ 2,321	\$ 1,718
Electric	26,965	21,139	26,295	26,671
Steam	2,047	1,238	1,479	1,361
Other water	3,222	2,205	3,489	3,658
Operating Income	\$ 33,333	\$ 29,210	\$ 27,585	\$ 43,308

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

Future Debt Service Requirements (in thousands)



	2020	2021	2022	2023	2024
Principal	\$ 7,609	\$ 7,942	\$ 11,242	\$ 11,774	\$ 12,330
Interest	\$ 1,443	\$ 30,945	\$ 30,489	\$ 29,939	\$ 29,590

Debt service after 2024 includes remaining principal payments of \$574,401,000 and interest payments of \$434,613,000 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 2020
- GASB Statement No. 87, Leases – effective for fiscal year 2021
- GASB Statement No. 91, Conduit Debt Obligations – effective for fiscal year 2022

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

Future accounting standards

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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!



Discussion



Audit summary

Jodi Dobson, Partner
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Bethany Ryers, Firm Director
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Jeff Hurda, Senior Accountant
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Commissioner Ross inquired about the number of staff that were working onsite. Ms. Ryers responded that 4-5 people were on site. Commissioner Ross congratulated Ms. Shawa and her staff for an audit well done.

Motion by Commissioner Price, **Seconded** by Commissioner Mullen, to forward to the Board Meeting the Acceptance of the Resolution for the 2019 Audited Financial Statements.

Action: Motion Carried.

July YTD Financial Summary

CFO Heather Shawa gave a review of the July 2019 Year-to-date Financial Summary. Ms. Shawa reported the following: operating cash is budgeted at \$32.3 million and it is now near \$32.1 million; Net Income is budgeted just above \$4 million and it is now a little under \$8 million. Ms. Shawa noted that as July and August are typically slower months financial factors are typically under budget. Ms. Shawa also reported that credit on VEBA of approximately \$1 million was not known at the time of the budget.

Internal Audit Report & Revised Internal Audit Work Plan

Overview

- FY 2019 Audit Plan Progress Report
- Background for Revised FY 2020 Audit Plan
- Proposed FY 2020 Audit Plan
- Revised Internal Audit Department Charter
- Other Items

FY 2019 Audit Plan Progress Report

- Engagements Completed:
1. Customer Arrangements Audit (FY18 carryover)
 2. Contract Signature Authority Compliance Audit (FY18 carryover)
 3. Physical Security Audit (FY18 carryover)
 4. COBIT Compliance Follow-up Audit
 5. Change Management Follow-up Audit
 6. Metering Services Audit
 7. Vegetation Management Audit
 8. Accounts Payable Audit
 9. Surprise Cash Counts (2)
 10. Employee Time Reporting Reviews (2)
 11. Cybersecurity Policies Audit



Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
September 10, 2019



FY 2019 Audit Plan Progress Report, cont'd

Engagement in Progress:

1. Procurement Audit (summarizing and reporting stage)

Engagement Deferred:

1. Project Engineering Audit (terminated and now deferred to FY 2021)



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4

Proposed, Revised FY 2020 Audit Plan - Background

Basis for Plan:

1. The Predecessor Internal Auditor held meetings with Senior Management and Staff to discuss risks and potential audit topics in FY 2019.
2. Risk assessments for each of 100-plus auditable activities at BWL.
3. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
4. Identified more than 30 potential audits to perform in FY 2020 and beyond.
5. After the Predecessor Internal Auditor left and I came on board in July 2019, we followed-up with Senior Management on the proposed plan and determined that some of the needs of the business had changed since the initial plan was agreed upon. Thus, as a result of discussions with Senior Management, we made some revisions to the initial plan.



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5

Proposed, Revised FY 2020 Audit Plan - Background

Top Six Engagements for FY 2020* (as discussed and agreed with Senior Management, then priority-ranked by Internal Audit in order of importance and estimated timeframes):

1. **Cash Management and Treasury Audit (First Time Audit)**
2. **Work Management (WM) (New Process and First Time Audit)**
3. **Customer Projects (Last Audited in March 2015 and to be executed at the same time as the WM Audit)**
4. **Energy Risk Management (Last Audited in June 2013)**
5. **IT - Vulnerability Assessments (First Time Audit) Estimated start is Q4 2020.**
6. **CFO - Fixed Assets (Last audited in May 2012) Estimated start is Q4 2020.**

* This plan is subject to change. Items that could change and alter the plan include staffing efforts, upgrade in audit technology and related training, ISO certification for Internal Audit, and special engagements.



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6

Proposed, Revised FY 2019 Audit Plan Hours

Planned Audits	Estimated Hours
Cash Management and Treasury (First Time Audit)	450
Work Management (First Time Audit)	450
Customer Projects	300
Energy Risk Management	300
IT Vulnerability Assessments (First Time Audit)	450
CFO - Fixed Assets	300
Other Engagements and Projects:	
Special Engagements	450
Consulting - Topics TBD	300
Periodic Reviews (cash count, time reporting, P-Card expenses, etc.)	200
Continuous Audit Involvement (BSMART, Org Change Mgt, ISO 9001, etc.)	300
Total Required Hours	3,500



Footer

7

Proposed, Revised FY 2020 Audit Plan Hours, Cont'd

Available Resources:

Resource	Position	Available Hours
Wesley Lewis	Director of Internal Audit	1,200
XXXXXX	Principal Internal Auditor	1,800
YYYYYY	Accounting Interns	500
Total Hours		3,500



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8

Proposed Revised FY 2020 Audit Plan, Cont'd

- Questions?
- Recommend Approval of FY 2020 Audit Plan



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9

Proposed Revised Internal Audit Department Charter

- Adds clarity and eliminates ambiguity regarding Internal Audit's rights and responsibilities.
- Promotes transparency and accountability of the Internal Audit function.
- Meets the requirements of the Institute of Internal Auditors International Audit Standards

We recommend approval of the revised Internal Audit Department Charter.



Footer

10

Other Items

1. Current Technology Upgrades
 - Internal Audit Management Software System
 - Information Analytics Tool, with Artificial Intelligence
2. Staffing
3. ISO Certification for Internal Audit



Footer

11

Commissioner Zerkle inquired as to why the plan was revised. Mr. Lewis responded that there were some risks or requirements identified in April that no longer apply.

Commissioner Ross summed up that there were three additional factors that created the need to re-evaluate the existing audit plan:

- A new internal auditor at mid-year who assessed the existing audit plan and reviewed the risk rating methodology
- The number of work hours were decreased in the audit department due to succession and departure of staff
- An analysis of risk rate needed to be done to determine which items needed to be addressed first

Commissioner Zerkle asked if another Assistant Internal Auditor would be hired and Mr. Lewis affirmed. She commented that Mr. Lewis' goal was to conduct six audits and the usual goal was three or four. Mr. Lewis responded that additional audits have been planned in case circumstances arise where an audit can't be completed.

Motion by Commissioner Price, **Seconded** by Commissioner Mullen, to accept the Revised Internal Audit Work Plan for FY 2020 and forward it to the full Board for acceptance.

Action: Motion Carried.

Internal Audit Charter and Resolution

Internal Auditor Wesley Lewis requested approval for the Internal Audit Charter Resolution.

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.

Commissioner Ross commented that it was the previous Internal Auditor's preference to have a high level but brief document. The new charter is similar but with more detail.

Commissioner Zerkle asked if the Principle Internal Auditor would be considered a BWL employee and Mr. Lewis affirmed.

Commissioner Ross asked Mr. Lewis to provide an update on his CISA certification process. Mr. Lewis responded he has started studying for the exam and plans to sit for the exam in January or February in 2020.

Motion by Commissioner Price, **Seconded** by Commissioner Mullen, to adopt the Internal Audit Charter by Resolution and forward it to the full Board for consideration.

Action: Motion Carried.

Other

Motion by Commissioner Price, **Seconded** by Commissioner Mullen, to excuse Commissioner David Lenz from tonight's meeting.

Action: Motion Carried

Adjourn

Chair Ken Ross adjourned the meeting at 8:00 p.m.

Respectfully submitted

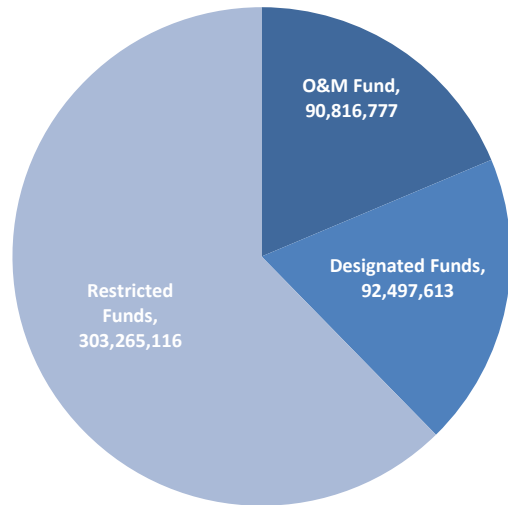
Ken Ross, Chair

Finance Committee

Financial Summary - September 2019



Cash



Total Cash: \$486,579,505

	Month End	Target
Days Cash on Hand	178	154
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.73	2.00

Days Cash on Hand:

O&M Fund - Portion Restricted By Bond Covenants + Designated Funds

$$\frac{\text{Budgeted Operating Expenses} - \text{Depreciation} + \text{RoE to City}}{365}$$

Debt Service Coverage:

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

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 108,390,169	\$ 109,754,489	(1,364,319)	-1%
Wholesale	\$ 4,022,351	\$ 3,953,239	69,112	2%
Total Revenue	\$ 112,412,521	\$ 113,707,728	(1,295,207)	-1%
Operating Expenses	\$ 86,430,350	\$ 92,584,620	(6,154,269)	-7%
Non Operating Income/(Expense)	\$ (8,494,497)	\$ (12,940,582)	4,446,085	-34%
Net Income	\$ 17,487,673	\$ 8,182,526	9,305,147	114%
FY 2020 Budgeted Net Income	\$ 18,382,572			

Budget Status YTD

O&M Budget YTD (excluding fuel)

FY 2020 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 163,837,370	\$ 36,159,529	\$ 41,027,716	(4,868,187)	-12%
% of Approved Budget	22%	25%		

Capital Budget YTD (Excluding Delta Energy Park)

FY 2020 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 58,760,214	\$ 9,264,324	\$ 10,014,937	(750,612)	-7%
% of Approved Budget	16%	17%		

Capital Budget YTD - Delta Energy Park Only

FY 2020 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 207,098,523	\$ 25,009,088	\$ 40,371,481	\$ (15,362,393)	-38%
% of Approved Budget	12%	19%		

Return on Assets

Actual YTD	Budget YTD	Target
2.48%	1.43%	4.66%

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

Financial Summary - September 2019



Ratios

Operating Ratio

$$\frac{\text{O\&M Expense}}{\text{Revenue}} = \frac{\$ 74,035,503}{\$ 112,412,521} = 0.66$$

APPA Median
0.68

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

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$ 233,107,848}{\$ 84,337,631} = 2.76$$

APPA Median
1.77

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

Debt to Total Assets

$$\frac{\text{LT Debt + Accrued Liabilities}}{\text{Total Assets}} = \frac{\$ 857,378,703}{\$ 1,477,767,379} = 0.58$$

APPA Median
0.56

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

Days Sales Outstanding

$$\frac{\text{Accounts Receivable}}{\text{Average Sales}} \times \text{Days} = \frac{\$ 24,478,015}{\$ 40,145,884} \times 30 = 18$$

Prior Year
26

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

Bad Debt

$$\frac{\text{12 Month Rolling Bad Debt}}{\text{12 Month Rolling Revenue}} = \frac{\$ 1,655,424}{\$ 366,108,183} = 0.45\%$$

Prior Year
0.46%

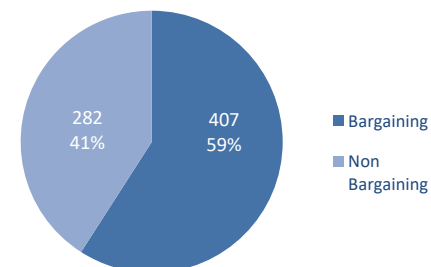
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	689
Budget YTD	743
Over/(Under) #	(54)

Full Time Equivalent	47
Temporary Employees	47



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 16,210,000	\$ 17,041,253	\$ (831,253)	-4.9%	50.45
Overtime	\$ 1,902,882	\$ 1,525,801	\$ 377,081	24.7%	
Total	\$ 18,112,882	\$ 18,567,054	\$ (454,172)	-2.4%	
Total Hours Worked					342,172
Labor \$/Hours Worked					\$ 52.93

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 3,517,502	\$ 3,650,861	\$ (133,360)
RX	\$ 694,461	\$ 751,975	\$ (57,513)
Dental	\$ 309,002	\$ 342,060	\$ (33,058)
Life	\$ 92,275	\$ 90,367	\$ 1,908
FICA	\$ 1,335,763	\$ 1,172,870	\$ 162,893
Other	\$ 417,562	\$ 461,315	\$ (43,753)
Total	\$ 6,366,566	\$ 6,469,448	\$ (102,882)

Proposed Resolution
Lansing Board of Water and Light
FIRST SUPPLEMENTAL UTILITY SYSTEM REVENUE BOND RESOLUTION

A RESOLUTION TO AUTHORIZE:

- Net present value savings by refunding all or part of the Series 2011A Bonds through issuance of Refunding Bonds;
- Chief Financial Officer to sell Refunding Bonds without further resolution;
- Other matters relative to issuance, sale and delivery of the Refunding Bonds.

WHEREAS, the City of Lansing, acting by and through the Lansing Board of Water and Light, issues bonds payable from revenues of the water supply, steam, chilled water and electric utility system (the "System") under the provisions of Act 94, Public Acts of Michigan, 1933, as amended, and an Amended and Restated Utility System Revenue Bond Resolution adopted by the Board on March 27, 2018, as amended on March 26, 2019 (the "Bond Resolution"); and

WHEREAS, all terms not defined herein shall have the meanings set forth in the Bond Resolution; and

WHEREAS, currently the Board has outstanding the Utility System Revenue Bonds, Series 2011A (the "Series 2011A Bonds"), the Utility System Revenue Refunding Bonds, Series 2013A, the Utility System Revenue Refunding Bonds, Series 2017A, and the Utility System Revenue Bonds, Series 2019A; and

WHEREAS, the Board's municipal advisor, PFM Financial Advisors, LLC (the "Municipal Advisor"), has advised the Board that it may be able to accomplish a net savings of debt service costs by refunding all or a portion of the outstanding Series 2011A Bonds (the "Prior Bonds") through the issuance of one or more series of refunding bonds in an aggregate principal amount of not-to-exceed \$270,000,000 (the "Refunding Bonds"); and

WHEREAS, the Board's bond counsel, Miller, Canfield, Paddock and Stone, P.L.C., has advised that under existing law, as most recently amended by the Tax Cuts and Jobs Act signed into law on December 22, 2017 (the "2017 Tax Act"), interest on bonds issued to advance refund the Series 2011A Bonds will not be excludable from gross income for federal income tax purposes; and

WHEREAS, Section 24(b) of the Bond Resolution authorizes the issuance of Additional Bonds of equal standing and priority of lien with the Outstanding Bonds for the purposes of refunding a part of the Outstanding Bonds and paying costs of issuing such Additional Bonds, if after giving effect to the refunding the maximum amount of Aggregate Debt Service in each future fiscal year shall be less than the Aggregate Debt Service in each future fiscal year prior to giving effect to the refunding; and

WHEREAS, in order to take advantage of the most favorable market for sale of the Refunding Bonds and purchase of securities to be escrowed for payment of the Prior Bonds to be refunded, the Board wishes to authorize the Chief Financial Officer to sell the Refunding Bonds at negotiated sale without further resolution of the Board; and

WHEREAS, the conditions and requirements of the Bond Resolution for the issuance of refunding bonds as Additional Bonds of equal standing and priority of lien with Outstanding Bonds have been met for the issuance of the proposed Refunding 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, and whenever used in this Bond Resolution, except when otherwise indicated by the context, the following terms shall have the following meanings:

- (a) “Additional Bonds” means any Additional Bonds issued pursuant to Section 24 of the Bond Resolution of equal standing with the outstanding Bonds.
- (b) “Bond Resolution” means the Amended and Restated Utility System Revenue Bond Resolution adopted by the Board on March 27, 2018, as amended on March 26, 2019, and supplemented by this First Supplemental Utility System Revenue Bond Resolution, and any other resolution which amends or supplements the Bond Resolution.
- (c) “Bonds” or “Senior Lien Bonds” means the outstanding portion of the Utility System Revenue Bonds, Series 2011A, the Utility System Revenue Refunding Bonds, Series 2013A, the Utility System Revenue Refunding Bonds, Series 2017A, and the Utility System Revenue Bonds, Series 2019A, the Refunding Bonds, and any Additional Bonds of equal standing hereafter issued.
- (d) “Chief Financial Officer” means the Board’s Chief Financial Officer.
- (e) “Escrow Agreement” means, for purposes of this First Supplemental Utility System Revenue Bond Resolution, one or more escrow agreements described in this Resolution to provide for payment of principal of and interest on the Prior Bonds being refunded.
- (f) “Escrow Fund” means, for purposes of this First Supplemental Utility System Revenue Bond Resolution, one or more escrow funds established pursuant to the Escrow Agreement to hold the cash and investments necessary provide for payment of principal of and interest on the Prior Bonds being refunded.
- (g) “Prior Bonds” means, for purposes of this First Supplemental Utility System Revenue Bond Resolution, the Series 2011A Bonds.

- (h) “Refunding Bonds” means, for purposes of this First Supplemental Utility System Revenue Bond Resolution, all or any series of refunding bonds issued pursuant to this First Supplemental Utility System Revenue Bond Resolution.
- (i) “System” means the complete facilities of the Board for the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, including all plants, works, instrumentalities and properties used or useful in connection with the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, and all additions, extensions and improvements thereto existing or hereafter acquired by the Board.

Section 2. Conditions Permitting Issuance of Additional Bonds. Pursuant to Section 24(b) of the Bond Resolution, the Board hereby determines that the Refunding Bonds shall be issued as Additional Bonds for the purpose of refunding all or a portion of the Prior Bonds and paying costs of issuance of the Refunding Bonds, only if, after giving effect to the refunding, the maximum amount of Aggregate Debt Service in each future fiscal year shall be less than the Aggregate Debt Service in each future fiscal year prior to giving effect to the refunding.

The Board hereby determines that the Board is not in default in making its required payments to the Operation and Maintenance Fund or the Redemption Fund.

Section 3. Refunding of Prior Bonds; Refunding Bonds Authorized; Applicable Law. If refunding all or a portion of the Prior Bonds will accomplish debt service savings, then the City, acting by and through the Board, shall borrow the sum of not-to-exceed Two Hundred Seventy Million Dollars (\$270,000,000) as finally determined upon the sale thereof, and issue the Refunding Bonds therefor in one or more series for the purpose of paying costs of refunding all or a portion of the Prior Bonds, including the payment of the costs of legal, financial, bond insurance (if any), underwriter’s discount, and other expenses incident thereto and incident to the issuance and sale of the Refunding Bonds. The Refunding Bonds shall be payable solely out of the Net Revenues of the System. City Council shall not be requested to pledge the full faith and credit of the City for payment of the Refunding Bonds. The Refunding Bonds shall be sold and the proceeds applied in accordance with the provisions of Act 94.

Section 4. Refunding Bond Details. The Refunding Bonds shall be designated as the “UTILITY SYSTEM REVENUE REFUNDING BONDS” with any additional or revised designations for each series as determined at the time of sale by the Chief Financial Officer to reflect the date of sale or delivery of the Refunding Bonds, to show that the Refunding Bonds are federally taxable bonds, as applicable, and/or to otherwise distinguish the Refunding Bonds from other series of Bonds issued by the Board. The Refunding Bonds shall be issued as fully registered bonds registered in the denomination of \$5,000 or integral multiples thereof and shall be numbered in consecutive order of registration or authentication from 1 upwards. The Refunding Bonds shall be dated as of the date of delivery thereof or such other date as determined at the time of sale

of the Refunding Bonds, and shall mature as serial bonds or term bonds on such dates as shall be determined at the time of sale of the Refunding Bonds.

The Refunding Bonds shall be subject to optional and mandatory redemption prior to maturity at the times and prices finally determined at the time of sale of the Refunding Bonds, as finally determined at the time of sale of the Refunding Bonds.

The Refunding Bonds shall bear interest at a rate or rates to be determined on sale thereof, payable on July 1, 2020, or such other date as provided at the time of sale of the Refunding Bonds, and semi-annually thereafter on January 1st and July 1st of each year.

The Refunding Bonds shall be executed by the manual or facsimile signature of the Chairperson and the Corporate Secretary of the Board. No Refunding Bond shall be valid until authenticated by an authorized representative of the Transfer Agent. The Refunding Bonds shall be delivered to the Transfer Agent for authentication and be delivered by the Transfer Agent to the purchaser in accordance with instructions from the Chief Financial Officer upon payment of the purchase price for the Refunding Bonds.

Section 5. Registration and Transfer. U.S. Bank National Association, Lansing, Michigan is hereby appointed to act as bond registrar, paying agent and transfer agent (the "Transfer Agent") for the Refunding Bonds. The Chief Financial Officer is hereby authorized to execute one or more agreements with the Transfer Agent on behalf of the Board. The Board reserves the right to replace the Transfer Agent at any time, provided written notice of such replacement is given to the registered owners of record of bonds not less than sixty (60) days prior to an interest payment date. Principal of and interest on the Refunding Bonds shall be payable by check or draft mailed by the Transfer Agent to the registered owner at the registered address as shown on the registration books of the Board maintained by the Transfer Agent. Interest shall be payable to the person or entity who or which is the registered owner of record as of the fifteenth (15th) day of the month prior to the payment date for each interest payment. The date of determination of the registered owner for purposes of payment of interest as provided in this paragraph may be changed by the Board to conform to market practice in the future.

The Refunding Bonds may be issued in book-entry-only form through The Depository Trust Company in New York, New York ("DTC"), and the Chief Financial Officer is authorized to execute such custodial or other agreement with DTC as may be necessary to accomplish the issuance of the Refunding Bonds in book-entry-only form and to make such changes in the form of the Refunding Bonds within the parameters of this resolution as may be required to accomplish the foregoing. Notwithstanding the foregoing, if the Refunding Bonds are held in book-entry-only form by DTC, payment of principal of and interest on the Refunding Bonds shall be made in the manner prescribed by DTC.

The Refunding Bonds may be transferred upon the books required to be kept by the Transfer Agent pursuant to this section by the person or entity in whose name it is registered, in person or by the registered owner's duly authorized attorney, upon surrender of the bond

for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Transfer Agent. Whenever any bond shall be surrendered for transfer, the Board shall execute and the Transfer Agent shall authenticate and deliver a new bond of the same series in like aggregate principal amount, maturity and interest rate. The Transfer Agent shall require the payment by the bondholder requesting the transfer of any tax or other governmental charge required to be paid with respect to the transfer. Notwithstanding the foregoing, if Bonds are held by DTC in book-entry-only form, the transfer of Bonds shall be made in the manner prescribed by DTC.

Section 6. Refunding Bond Proceeds. From the proceeds of sale of the Refunding Bonds there first shall be immediately deposited in the Redemption Fund an amount equal to the accrued interest and premium, if any, received on delivery of the Refunding Bonds, and the Board may take credit for the amount so deposited against the amount required to be deposited in the Redemption Fund for payment of the next maturing interest on the Refunding Bonds. Notwithstanding the foregoing, at the discretion of the Chief Financial Officer, all or a portion of any premium received upon delivery of the Refunding Bonds may be deposited in the Bond Reserve Account or the Escrow Fund in consultation with Bond Counsel.

There shall next be deposited in the Bond Reserve Account an amount, if any, designated by the Chief Financial Officer at the time of sale.

There shall next be deposited in the Escrow Fund from the proceeds of sale of the Refunding Bonds cash and investments in Government Obligations or Municipal Obligations not redeemable at the option of the issuer. U.S. Bank National Association, Lansing, Michigan, is hereby appointed to act as escrow trustee (the "Escrow Trustee") under the Escrow Agreement. The Escrow Trustee shall hold the Escrow Fund in trust pursuant to the Escrow Agreement which shall irrevocably direct the Escrow Trustee to take all necessary steps to call the Prior Bonds being refunded for redemption as specified in the Escrow Agreement. The Chief Financial Officer is hereby authorized to execute and deliver the Escrow Agreement, to transfer any moneys as she may deem necessary from the Redemption Fund, or other fund or account of the Board, to the Escrow Fund, and to purchase, or cause to be purchased, escrow securities consisting of Government Obligations, including, but not limited to, United States Treasury Obligations – State and Local Government Series (SLGS), or Municipal Obligations, for deposit in the Escrow Fund. The Chief Financial Officer is directed to deposit to the Escrow Fund, from Refunding Bond proceeds and other moneys as necessary, an amount which, together with investment proceeds to be received thereon, will be sufficient, without reinvestment, to pay the principal of and interest on the Prior Bonds being refunded as they become due or upon call for redemption.

The remaining proceeds of the Refunding Bonds shall be deposited in a fund which may be established in the Escrow Agreement to pay costs of issuance of the Refunding Bonds and the costs of refunding the Prior Bonds. Any moneys remaining after payment of costs of issuance and costs of refunding the Prior Bonds being refunded shall be transferred to the Redemption Fund and used to pay interest on the Refunding Bonds.

Section 7. Bond Form. The Refunding Bonds shall be in substantially the following form with such revisions, additions and deletions as the Board may deem advisable or necessary to comply with the final terms of the Refunding Bonds established upon sale thereof:

BOND NO.

R-

UNITED STATES OF AMERICA
STATE OF MICHIGAN
COUNTIES OF INGHAM AND EATON

CITY OF LANSING
LANSING BOARD OF WATER AND LIGHT
UTILITY SYSTEM REVENUE REFUNDING BOND, [SERIES]
[FEDERALLY TAXABLE]

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Date of Original Issue</u>	<u>CUSIP</u>
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Registered Owner: Cede & Co.

Principal Amount:

The City of Lansing, Counties of Ingham and Eaton, State of Michigan (the "City"), acting through the governing body of the Lansing Board of Water and Light (the "Issuer"), acknowledges itself to owe and for value received hereby promises to pay to the Registered Owner specified above, or registered assigns, only from the Net Revenues of the System as hereinafter provided, the Principal Amount specified above, in lawful money of the United States of America, on the Date of Maturity specified above, [unless prepaid prior thereto as hereinafter provided,] with interest thereon (computed on the basis of a 360-day year of twelve 30-day months) from the Date of Original Issue specified above or such later date to which interest has been paid, until paid, at the Interest Rate per annum specified above, first payable on [interest payment date] and semiannually thereafter. Principal of this bond is payable at the designated corporate trust office of [transfer agent], or such other transfer agent as the Issuer may hereafter designate by notice mailed to the registered owner of record not less than sixty (60) days prior to any interest payment date (the "Transfer Agent"). Interest on this bond is payable by check or draft mailed by the Transfer Agent to the person or entity who or which is as of the fifteenth (15th) day of the month prior to each interest payment date, the registered owner of record at the registered address.

For the prompt payment of principal and interest on this bond, the revenues received by the Issuer from the operations of the Issuer's facilities for the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat (the "System") after provision has been made for reasonable and necessary expenses of operation, maintenance and administration of the System (the "Net Revenues"), are irrevocably pledged and a statutory first lien thereon has been created to secure the payment of the principal of and

interest on this bond, when due; however, the pledge of Net Revenues and the statutory lien are on a parity with the pledge of Net Revenues and statutory lien in favor of [the Utility System Revenue Bonds, Series 2011A], the Utility System Revenue Refunding Bonds, Series 2013A, the Utility System Revenue Refunding Bonds, Series 2017A, and the Utility System Revenue Bonds, Series 2019A.

This bond is one of a series of bonds of even Date of Original Issue aggregating the principal sum of \$[principal amount]. This bond is issued for the purpose of refunding certain outstanding bonds pursuant to an Amended and Restated Utility System Revenue Bond Resolution adopted by the Issuer on March 27, 2018, as amended and supplemented from time to time, including by a First Supplemental Utility System Revenue Bond Resolution adopted by the Issuer on [date of resolution] (collectively, the “Bond Resolution”). This bond is issued under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act 94, Public Acts of Michigan, 1933, as amended (“Act 94”).

For a complete statement of the revenues from which and the conditions under which this bond is payable, a statement of the conditions under which additional bonds of equal standing as to the Net Revenues may hereafter be issued, and the general covenants and provisions pursuant to which this bond is issued, reference is made to the Bond Resolution. Reference is hereby made to the Bond Resolution and any and all supplements thereto and modifications and amendments thereof, if any, and to Act 94, for a more complete description of the pledges and covenants securing the bonds of this issue, the nature, extent and manner of enforcement of such pledges, the rights and remedies of the registered owners of the bonds of this issue with respect thereto and the terms and conditions upon which the bonds of this issue are issued and may be issued thereunder. To the extent and in the manner permitted by the terms of the Bond Resolution, the provisions of the Bond Resolution or any resolution or agreement amendatory thereof or supplemental thereto, may be modified or amended by the Issuer, except in specified cases, only with the consent of the registered owners of at least fifty-one percent (51%) of the principal amount of the bonds of the System then outstanding.

Bonds of this issue [maturing in the years [date], inclusive,] shall not be subject to redemption prior to maturity.

[Insert optional and mandatory redemption provisions if applicable]

This bond is transferable only upon the books of the Issuer kept for that purpose at the office of the Transfer Agent by the registered owner hereof in person, or by the registered owner’s attorney duly authorized in writing, upon the surrender of this bond together with a written instrument of transfer satisfactory to the Transfer Agent duly authorized in writing and thereupon a new registered bond or bonds in the same aggregate principal amount and of the same maturity shall be issued to the transferee in exchange therefor as provided in the Bond Resolution, and upon the payment of the charges, if any, therein prescribed. [The Transfer Agent shall not be required (i) to issue, register the transfer of, or exchange any bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of bonds selected for redemption under the Bond Resolution and ending at the

close of business on the date of that mailing, or (ii) to register the transfer of or exchange any bond so selected for redemption in whole or in part, except the unredeemed portion of bonds being redeemed in part.]

THIS BOND IS A SELF-LIQUIDATING BOND AND IS NOT A GENERAL OBLIGATION OF THE CITY AND DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN ANY CONSTITUTIONAL, STATUTORY OR CHARTER LIMITATION, AND IS PAYABLE BOTH AS TO PRINCIPAL AND INTEREST SOLELY FROM THE NET REVENUES OF THE SYSTEM AND CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE BOND RESOLUTION. THE PRINCIPAL OF AND INTEREST ON THIS BOND ARE SECURED BY THE STATUTORY LIEN HEREINBEFORE DESCRIBED.

The Issuer has covenanted and agreed, and covenants and agrees, to fix and maintain at all times while any bonds payable from the Net Revenues of the System shall be outstanding, such rates for service furnished by the System as shall be sufficient to provide for payment of the principal of and interest on the bonds of this issue and any other bonds payable from the Net Revenues as and when the same shall become due and payable, to provide for the payment of expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the same in good repair and working order, and to provide for such other expenditures and funds for the System as are required by the Bond Resolution.

It is hereby certified and recited that all acts, conditions and things required by law to be done precedent to and in the issuance of this bond and the series of bonds of which this is one have been done and performed in regular and due time and form as required by law.

This bond is not valid or obligatory for any purpose until the Transfer Agent's Certificate of Authentication on this bond has been executed by the Transfer Agent.

IN WITNESS WHEREOF, the City, acting through the Lansing Board of Water and Light, has caused this bond to be signed in its name with the facsimile signatures of the Chairperson and Corporate Secretary of the Lansing Board of Water and Light, and a facsimile of the City's corporate seal to be printed hereon, all as of the Date of Original Issue.

LANSING BOARD OF WATER AND LIGHT

By [definitive Bond to be signed at delivery]
Chairperson

(City Seal)

Countersigned:

By [definitive Bond to be signed at delivery]

Its: Corporate Secretary

[STANDARD FORMS OF CERTIFICATE OF AUTHENTICATION
AND ASSIGNMENT TO BE INSERTED ON BOND]

Section 8. Municipal Advisor. The Board hereby requests that PFM Financial Advisors, LLC continue to serve the Board as Municipal Advisor for the Refunding Bonds.

Section 9. Bond Counsel. The Board hereby requests that Miller, Canfield, Paddock and Stone, P.L.C., Lansing, Michigan, continue to serve the Board as bond counsel for the Refunding Bonds. The Board acknowledges that Miller, Canfield, Paddock and Stone, P.L.C. has represented from time to time, and currently represents, various underwriters, financial institutions, and other potential participants in the bond financing process, in matters not related to the issuance and sale of the Refunding Bonds.

Section 10. Taxable or Tax-Exempt Bonds; Tax Covenant. The Board anticipates advance refunding all or a portion of the Prior Bonds and therefore issuing the Refunding Bonds on a federally taxable basis in accordance with the current provisions of the 2017 Tax Act. If, due to market conditions and/or changes in law, the issuance of any series of Refunding Bonds on a tax-exempt basis will provide greater net present value savings than the issuance of Refunding Bonds on a federally taxable basis, the Chief Financial Officer is authorized to effectuate the sale and issuance of such series of Refunding Bonds on a tax-exempt basis.

In the event that any series of Refunding Bonds is issued on a tax-exempt basis, the Board shall not invest, reinvest or accumulate any moneys deemed to be proceeds of such tax-exempt Refunding Bonds pursuant to the Internal Revenue Code of 1986, as amended, in such a manner as to cause such tax-exempt Refunding Bonds to be "arbitrage bonds" within the meaning of the Internal Revenue Code. The Board hereby covenants that, to the extent permitted by law, it will take all actions within its control and that it shall not fail to take any action as may be necessary to maintain the exclusion of interest on such tax-exempt Refunding Bonds from gross income for federal income tax purposes, including but not limited to, actions relating to the rebate of arbitrage earnings, if applicable, and the expenditure and investment of bond proceeds and moneys deemed to be bond proceeds, all as more fully set forth in the non-arbitrage and tax compliance certificate to be delivered by the Board on the date of delivery of such tax-exempt Refunding Bonds.

Section 11. Negotiated Sale of Bonds; Appointment of Senior Managing Underwriter. Based on the advice of the Municipal Advisor, it is hereby determined to be in the best interest of the Board to sell the Refunding Bonds by negotiated sale in order to enable the Board to select and adjust terms for the Refunding Bonds, to enter the market on short notice at a point in time which appears to be most advantageous, and thereby possibly obtain a lower rate of interest on the Refunding Bonds, to achieve sale efficiencies so as to reduce the cost of issuance and interest expense, and to take advantage of the most favorable market for purchase of securities to be escrowed for payment of the Prior Bonds to be refunded.

The Chief Financial Officer is hereby authorized to select a managing underwriter and to name additional co-managers and/or to develop a selling group in consultation with the Municipal Advisor. By adoption of this resolution the Board assumes no obligations or liability to the underwriter for any loss or damage that may result to the underwriter from the adoption

of this resolution, and all costs and expenses incurred by the underwriter in preparing for sale of the Refunding Bonds shall be paid from the proceeds of the Refunding Bonds, if issued, except as may be otherwise provided in the Bond Purchase Agreement for Refunding Bonds.

Section 12. Bond Ratings and Bond Insurance. The Chief Financial Officer is hereby authorized to apply for bond ratings from such municipal bond rating agencies as deemed appropriate, in consultation with the Municipal Advisor. If the Municipal Advisor recommends that the Board consider purchase of municipal bond insurance, then the Chief Financial Officer is hereby authorized to negotiate with insurers regarding acquisition of municipal bond insurance, and, in consultation with the Municipal Advisor, to select an insurer and determine which bonds, if any, shall be insured, and the Chief Financial Officer is hereby authorized to execute an agreement with the insurer relating to procedures for paying debt service on the insured bonds and notifying the insurer of any need to draw on the insurance and other matters.

Section 13. Official Statement. The Chief Financial Officer is authorized to approve circulation of a Preliminary Official Statement describing the Refunding Bonds and, after sale of the Refunding Bonds, to prepare, execute and deliver a final Official Statement.

Section 14. Continuing Disclosure. The Chief Financial Officer is hereby authorized to execute and deliver, prior to delivery of the Refunding Bonds, a written continuing disclosure undertaking as necessary in order to enable the underwriter or bond purchaser to comply with the requirements of Securities and Exchange Commission Rule 15c2-12. The continuing disclosure undertaking shall be in substantially the form which she shall, in consultation with bond counsel, determine to be appropriate.

Section 15. Sale of Refunding Bonds. The Chief Financial Officer is authorized, in consultation with the Municipal Advisor, to accept an offer to purchase the Refunding Bonds without further resolution of this Board, if, after giving effect to the refunding, the maximum amount of Aggregate Debt Service in each future fiscal year shall be less than the Aggregate Debt Service in each future fiscal year prior to giving effect to the refunding. This authorization includes, but is not limited to, determination of original principal amount of the Refunding Bonds; the prices at which the Refunding Bonds are sold; the date of the Refunding Bonds; the schedule of principal maturities and whether the Refunding 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 Refunding Bonds; application of the proceeds of the Refunding Bonds, and, if necessary to meet the requirements of the bond underwriters or purchasers, deposit to the Bond Reserve Account from funds on hand or proceeds of the Refunding 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 Refunding Bonds or other offer to purchase the Refunding Bonds, or a certificate of award of sale, or the Official Statement.

The Refunding Bonds shall not be sold unless there shall be net present value savings equaling not less than 10% of the Prior Bonds being refunded after payment of costs of

issuance of the Refunding Bonds and costs of refunding the Prior Bonds being refunded. The maximum true interest cost of the Refunding Bonds shall not exceed 5.0%. The first maturity of principal on the Refunding Bonds shall occur no earlier than July 1, 2020, and the final date of maturity shall occur no later than July 1, 2041. In making such determinations the Chief Financial Officer is authorized to rely upon data and computer runs provided by the Municipal Advisor.

Section 16. Verification Agent. The Chief Financial Officer is hereby authorized, at her discretion, to select an independent certified public accountant to serve as verification agent to verify that the securities and cash to be deposited to the Escrow Fund will be sufficient to provide, at the times and in the amounts required, sufficient moneys to pay the principal of and interest on the Prior Bonds being refunded as they become due or upon call for redemption.

Section 17. Other Actions. In the event that the Chief Financial Officer is not available at the time that it becomes necessary to take actions directed or authorized under this resolution, then a person designated by the Chief Financial Officer is authorized to take the actions delegated to the Chief Financial Officer by this resolution. The officers, administrators, agents and attorneys of the Board are authorized and directed to take all other actions necessary and convenient to facilitate issuance, sale and delivery of the Refunding Bonds, and to execute and deliver all other agreements, documents and certificates and to take all other actions necessary or convenient in accordance with this resolution, and to pay costs of issuance including but not limited to rating agency fees, bond insurance premiums, transfer agent fees, Escrow Trustee fees, verification agent fees, Municipal Advisor fees, bond counsel fees, costs of printing the preliminary and final official statements, and any other costs necessary to accomplish sale and delivery of the Refunding Bonds.

Section 18. Applicability of the Outstanding Bond Resolutions. Except to the extent supplemented or otherwise provided in this resolution, all of the provisions and covenants provided in the Bond Resolution shall apply to the Refunding Bonds issued pursuant to provisions of this resolution, such provisions of the Bond Resolution being made applicable to the Refunding Bonds.

Section 19. Conflicting Resolutions. All resolutions and parts of resolutions insofar as they conflict with the provisions of this resolution are hereby rescinded.

Section 20. 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 21. Publication and Recordation. In accordance with the provisions of Section 6 of Act 94, this resolution shall be published once in full in the *Lansing State Journal*, a newspaper of general circulation in the City qualified under State law to publish legal notices,

promptly after its adoption, and shall be recorded in the minutes of the Board and such recording authenticated by the signatures of the Chairperson and Corporate Secretary of the Board.

Section 22. Effective Date. This resolution is hereby determined to be immediately necessary for the preservation of the public peace, property, health and safety of the City and the users of the System. In accordance with the provisions of Section 6 of Act 94, this resolution shall become effective immediately upon its adoption.

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 Tuesday, November 19, 2019, 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 5, 2019

Overview

- FY 2019 Audit Plan Progress Report
- Update on FY 2020 Audit Plan
- Other Items

FY 2019 Audit Plan Progress Report

Engagement in Progress:

1. Procurement Audit – Final audit report to be issued soon.

Update on FY 2020 Audit Plan

1. Cash Management and Treasury Audit (First Time Audit) – Kicked off on 9/30/2019 and is in progress.
2. Fixed Assets (Last audited in May 2012) – Kicked off on 10/21/2019 and in progress.
3. Work Management (WM) (First Time Audit) – Scheduled kickoff is 1/20/2020.
4. Customer Projects (Last Audited in March 2015 and to be executed at the same time as the WM Audit) – Scheduled kickoff is 1/20/2020.
5. Energy Risk Management (Last Audited in June 2013) – Scheduled kickoff is 4/6/2020.
6. IT Vulnerability Assessments (First Time Audit) – Scheduled kickoff is 5/25/2020.

*** As previously reported, this plan, along with all dates, are subject to change.**

Other Items

1. Current Technology Upgrades
 - Internal Audit Management Software System
 - Information Analytics Tool, with Artificial Intelligence
2. Staffing
3. ISO Certification for Internal Audit
4. CISA Exam Progress