



FINANCE COMMITTEE MEETING

AGENDA

January 8, 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 November 6, 2018.....**TAB 1**
2. November YTD Financial Summary.....**TAB 2**
3. Update on FY20 Budgeting Process and Timeline.....**INFO ONLY**
4. Internal Audit Open Management Responses Update.....**TAB 3**

Other

Adjourn

FINANCE COMMITTEE Meeting Minutes November 6, 2018

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, at 7:31 p.m. on Tuesday, November 6, 2018.

Finance Committee Chair Ken Ross called the meeting to order at 7:31 p.m. and asked that roll be taken.

Present: Commissioners Ken Ross, Beth Graham, Tony Mullen, and David Price. Also present: Commissioners Tracy Thomas, and Sandra Zerkle, and Non-Voting Commissioners Bill Long (Delta Township), and Douglas Jester (East Lansing).

Absent: None

The Corporate Secretary declared a quorum.

Public Comments

None

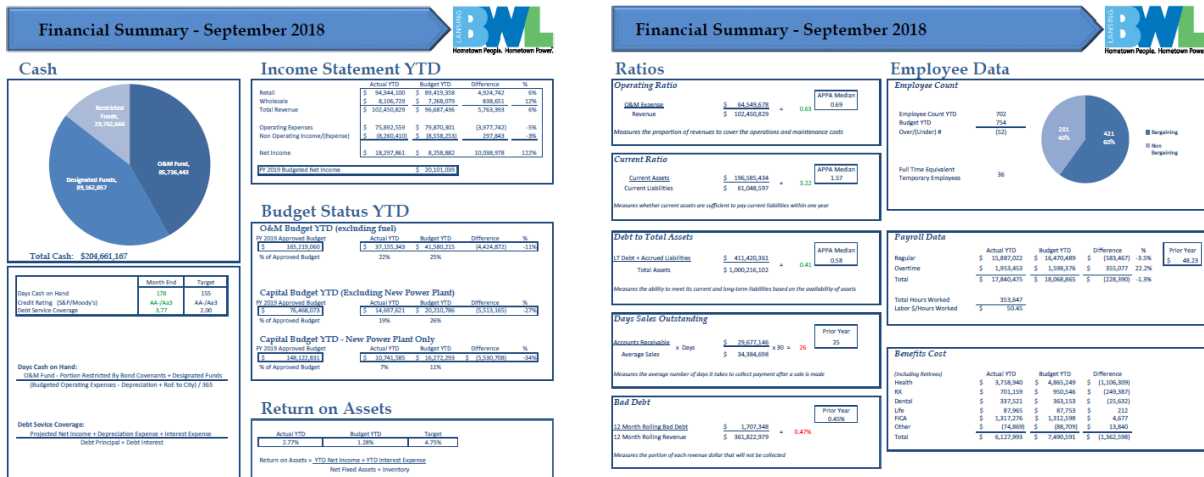
Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Mullen, to approve the Finance Committee meeting minutes of September 18, 2018.

Action: Motion Carried.

September YTD Financial Summary

Financial Manager, Scott Taylor, presented the following:



Cash is up \$4 million dollars from last month due to the time of year and days cash on is also strong. The Income Statement YTD indicates more than \$5 million in revenue, operating expenses are a little under—which is normal for this time of year, and the budgeted net income is holding at \$20 million. Budget Status YTD indicate that some of the initiatives aren't off to full speed yet. Because of the Erickson outage some money was shifted for spending from

September to October. The Capital Budget YTD for the new power plant is going well and also Return on Assets. Operating Ratios, Current Ratios, and Debt to Total Assets are all strong. Although Days Sales Outstanding is in the red it is similar to last year. Bad debt is continuing to be tracked. In Employee Data the employee count has decreased due to 11 interns returning to school. Payroll data is on track even though overtime is a little high due to transition in the work force. Due to good claims experience this year benefits costs are down.

GM Peffley commented on the Erickson turbine outage. Erickson was allotted \$4 million and if the outage had gone over that amount the turbine would not have been put back together.

Commissioner Thomas commented that the next items include amendments to plan documents that usually are addressed in an HR Committee Meeting. The amendments do not propose to make changes to any benefits or plan designs and because they are primarily intended to facilitate changes to the investment policy statement they are included with the proposed investment policy statement changes.

Defined Contribution and Deferred Compensation Plan Updates

Scott Taylor introduced Plante Moran Financial Advisors, BWL's new advisors for the two 401(a) plans and the 457(b) plan. Mr. Taylor stated that the changes being made in the plans are for management of plan assets. The changes are similar to those made in the VEBA and DB plans in September 2018. The two 401(a) plans replaced the Defined Benefit Plans. The plans are employer contribution only and are based on a percentage of wages. The 457(b) plan is a deferred compensation plan which employees can contribute. BWL will contribute \$1,000 each year in January and will match up to \$1,500 more per year.

Commissioner Zerkle asked if the 457 plan was a pre-tax plan. Mr. Taylor responded that employees have a pre-tax and a Roth option in the 457 plan.

Mr. Taylor explained that all three plans are set up in a similar fashion and each plan has a single document that is the plan and trust agreement. The plan portion of the document talks about the administration of the plan, defines the benefits and defines the eligibility. The trust portion of the document is about managing the investments. Management has carried out trustee functions on the trustees' behalf and although this is accepted practice, the change is being requested due to advice by counsel to make it more explicit that delegation by trustees was appropriate and clearly stated. The following recommendations for which management seeks approval are: the addendum to the three plans makes it clear that the trustee authority can be delegated; revision of the investment policy statement to add language that clearly lists the authority that is being delegated to the Retirement Plan Committee (RPC); and the clear delegation by resolution to the RPC.

Motion by Commissioner Price, Seconded by Commissioner Mullen, to approve the changes to the 401(a) Defined Contribution Plans and the 457(b) Deferred Compensation Plan and forward them to the Trustees and Board for approval.

Action: Motion Carried

Commissioner Long asked what attributed to the lesser extent of repair than expected on the Erickson turbine. GM Peffley responded that turbine outages are done every seven years or

50,000 hours and the Erickson was right on schedule. GM Peffley stated that plant staff did an excellent job of operating the machine over the last seven years.

Internal Audit Status Report

Internal Auditor Phil Perkins presented the following status report:



Internal Audit Status Report

Presented by:
Phil Perkins, Director of Internal Audit
Finance Committee Meeting
November 2018

FY 2019 Audit Plan Progress Report

Engagements Completed:

1. Physical Security Audit (FY18 carryover)
2. Contract Signature Authority Compliance Audit (FY18 carryover)
3. Customer Arrangements & Third Party Payments Audit (FY18 carryover)
4. Surprise Cash Count #1
5. Employee Time Reporting Review #1



FY 2019 Audit Plan Progress Report, Cont'd

Remaining Engagements:

1. IT Cybersecurity Audit
2. Vegetation Management Audit
3. Procurement Audit
4. BSMART and Other Organizational Change Management – Consulting
5. Surprise Cash Count #2
6. Time Reporting Review #2



Overview

- FY 2019 Audit Plan Progress Report
- Continuing Professional Education Status



FY 2019 Audit Plan Progress Report, cont'd

Engagements in Progress:

1. Change Management Follow-up Audit – 75% complete
2. Metering Services Audit - 25% complete
3. COBIT Compliance Follow-up Audit – 25% complete
4. Asset Management Consulting – underway, ongoing.

Upcoming Engagements:

1. Accounts Payable Audit – start December 2018
2. Project Engineering Audit – start January 2019



Continuing Professional Education/ Certification Status

1. Director of Internal Audit:
 - On target to complete all CPE requirements for CPA, CIA and CISA designations this year.
 - CPE will be reported to proper authorities so that certifications (and in the case of CPA, licensure) will be maintained through 2018 and beyond.
2. Senior Internal Auditor:
 - On target to complete annual CPE requirements for CPA designation.
 - In progress toward completing requirements for Certified Information Systems Auditor (CISA) designation.



Other

Scott Taylor requested that the Commissioners bring their Pension Trustees binders to the Trustee Meeting in order that updates that are being approved can be placed in the binders.

Adjourn

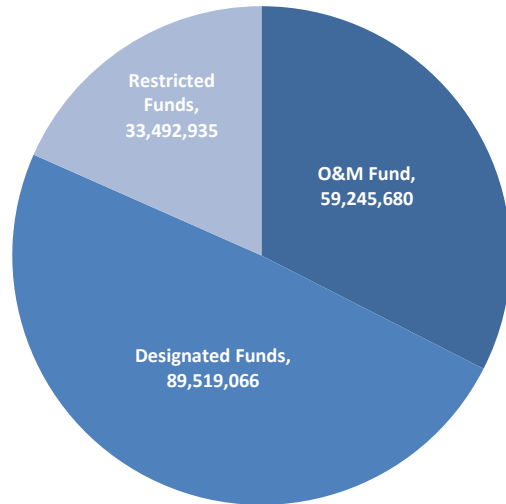
Commissioner Ross adjourned the meeting at 8:05 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

Financial Summary - November 2018



Cash



Total Cash: \$182,257,681

	Month End	Target
Days Cash on Hand	145	155
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.77	2.00

Days Cash on Hand:

O&M Fund - Portion Restricted By Bond Covenants + Designated Funds
 (Budgeted Operating Expenses - Depreciation + RoE to City) / 365

Debt Service Coverage:

Projected Net Income + Depreciation Expense + Interest Expense
 Debt Principal + Debt Interest

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 147,836,747	\$ 143,996,385	3,840,362	3%
Wholesale	\$ 10,967,159	\$ 10,194,996	772,163	8%
Total Revenue	\$ 158,803,906	\$ 154,191,381	4,612,525	3%
Operating Expenses	\$ 125,363,330	\$ 130,687,204	(5,323,873)	-4%
Non Operating Income/(Expense)	\$ (12,768,090)	\$ (13,821,370)	1,053,281	-8%
Net Income	\$ 20,672,486	\$ 9,682,807	10,989,679	113%
FY 2019 Budgeted Net Income		\$ 20,101,039		

Budget Status YTD

O&M Budget YTD (excluding fuel)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 165,219,060	\$ 64,728,901	\$ 67,937,895	(3,208,994)	-5%
% of Approved Budget	39%	41%		

Capital Budget YTD (Excluding New Power Plant)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 76,468,073	\$ 31,660,817	\$ 34,385,455	(2,724,638)	-8%
% of Approved Budget	41%	45%		

Capital Budget YTD - New Power Plant Only

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 148,122,831	\$ 22,560,453	\$ 27,496,957	\$ (4,936,504)	-18%
% of Approved Budget	15%	19%		

Return on Assets

Actual YTD	Budget YTD	Target
3.18%	1.67%	4.75%

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

Financial Summary - November 2018



Ratios

Operating Ratio

O&M Expense	\$ 106,467,356	=	0.67	APPA Median 0.69
Revenue	\$ 158,803,906			

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

Current Ratio

Current Assets	\$ 170,736,395	=	3.13	APPA Median 1.57
Current Liabilities	\$ 54,513,578			

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 405,740,762	=	0.41	APPA Median 0.58
Total Assets	\$ 996,911,128			

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

Days Sales Outstanding

Accounts Receivable	\$ 19,748,294	x 30 =	21	Prior Year 26
Average Sales	\$ 28,176,538			

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

Bad Debt

12 Month Rolling Bad Debt	\$ 1,566,575	=	0.43%	Prior Year 0.46%
12 Month Rolling Revenue	\$ 361,257,917			

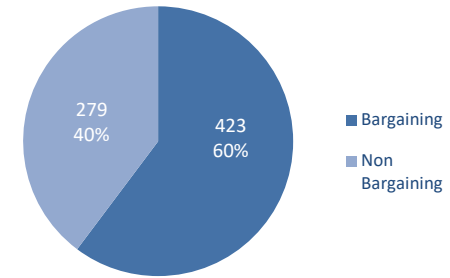
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	702
Budget YTD	754
Over/(Under) #	(52)

Full Time Equivalent	30
Temporary Employees	



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 24,992,883	\$ 25,966,727	\$ (973,844)	-3.8%	\$ 48.69
Overtime	\$ 3,344,010	\$ 2,621,830	\$ 722,180	27.5%	
Total	\$ 28,336,892	\$ 28,588,557	\$ (251,665)	-0.9%	

Total Hours Worked	557,515
Labor \$/Hours Worked	\$ 50.83

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 7,013,906	\$ 8,120,271	\$ (1,106,365)
RX	\$ 1,337,526	\$ 1,538,743	\$ (201,217)
Dental	\$ 552,916	\$ 605,255	\$ (52,339)
Life	\$ 146,262	\$ 147,993	\$ (1,731)
FICA	\$ 2,051,825	\$ 2,039,241	\$ 12,584
Other	\$ (238,513)	\$ (66,697)	\$ (171,817)
Total	\$ 10,863,922	\$ 12,384,806	\$ (1,520,884)

**STATUS OF MANAGEMENT RESPONSES TO AUDITS
DECEMBER 2018**



In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Audit Issue Description	Response Date	Responsible Area	Status of Management Response
52	COBIT Compliance	Internal Audit noted that actions should continue on as expedited a schedule as possible to reach full compliance with the adopted IT governance framework.	June 2017	Information Technology	Of 56 items involved, 42 are being reported by IT as complete, 10 on track, 3 overdue, and 1 ongoing. Internal Audit is in the process of verifying IT's reported status.
59	Succession Planning	Internal Audit supports identifying critical positions as soon as possible.	March 2018	Human Resources	A focus group has piloted a tool to assist with identification of critical positions which will be implemented on an organization-wide basis by 6/30/19. Implementation was previously estimated to occur by 12/31/18.
60	Succession Planning	Internal Audit supports training and development of succession candidates.	March 2018	Human Resources	Candidate assessment and development are underway, as part of the BWL Leadership Academy, and will continue through June 2019.
65	Physical Security <i>NEW</i>	Internal Audit supports a periodic review of all facility access.	Sept 2018	Industrial Health & Safety	Security will report facility access to managers on an annual basis, for review and response. Manager responses for this year, along with implementation of any corresponding changes to physical access indicated as being needed, are expected to be completed by 12/31/18.
66	Physical Security <i>NEW</i>	Internal Audit recommends controls over security personnel permitted to carry firearms on a concealed basis be enhanced.	Sept 2018	Industrial Health & Safety	Controls over security personnel authorized to carry firearms on a concealed basis will be enhanced by 12/31/18.
67	Contract Signature Authority Compliance <i>NEW</i>	Internal Audit noted the need for alignment with the updated organizational structure and Procurement Procedure, inclusion of MOUs, and consistently obtaining the Corporate Secretary's signature.	October 2018	Legal Services	Management will enhance training and communication to help ensure Corporate Secretary's countersignature is obtained as required; update Contract Signature Authority and Special Delegation documents to reflect current organizational structure and include MOUs; and revise policy and procedure to require General Counsel's consultation on purchase orders; all by 3/31/19.
68	Contract Signature Authority Compliance <i>NEW</i>	Internal Audit noted that proper approval and supporting documentation need to be on file.	October 2018	Legal Services	Management will develop policy establishing requirements for legal consultations and approvals, including documentation and approval requirements for direct payments involving agreements, as well as enhance training, communication, and document templates to help ensure proper approvals are obtained and documentation is on file, by 6/30/19.

Issue #	Audit Name	Audit Issue Description	Response Date	Responsible Area	Status of Management Response
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Closed Issues (since June 2018 report):

46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	January 2017	Human Resources	Job descriptions have been updated.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	January 2017	Human Resources	The plan for decoupling of base and merit increases has been completed.
58	Succession Planning	Internal Audit recommends that Succession Planning procedures be formally approved and updated annually.	March 2018	Human Resources	An updated Succession Planning procedure has been approved by executive management.
63	Customer Arrangements & 3rd Party Payments <i>NEW</i>	Internal Audit recommends setting a target success rate and monitoring for the degree of achievement of it, for Regular Arrangements, along with considering the possibility of a new payback period guideline.	July 2018	Customer Service	Customer Service has researched target success rates for customer payment arrangements in use by other utilities and confirmed the appropriateness of the standard length of time for payback in use with BWL customers. The Customer Service Business Analyst is conducting monitoring on a monthly basis.
64	Customer Arrangements & 3rd Party Payments <i>NEW</i>	Internal Audit recommends setting a target success rate and monitoring for the degree of achievement of it, for Special Arrangements, along with considering the possibility of a new supervisory approval guideline.	July 2018	Customer Service	Customer Service is tracking success rates for both Standard and Special Arrangements on their department scorecard and has confirmed that established review/approval requirements remain appropriate.