



FINANCE COMMITTEE MEETING

AGENDA

July 10, 2018

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 May 15, 2018.....**TAB 1**
2. May YTD Financial Summary**TAB 2**
3. Bonding Update.....**INFO ONLY**
4. Internal Audit Management Response Report.....**TAB 3**
5. Proposed Amended Resolution for Internal Audit Management Response.....**TAB 4**
 - a. Redlined Version Resolution
 - b. Clean Version Resolution
6. Internal Auditor Status Report.....**TAB 5**
7. Proposed Revised Internal Audit Charter.....**TAB 6**
 - a. Internal Audit Charter Resolution

Other

Adjourn

FINANCE COMMITTEE Meeting Minutes May 15, 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, on Tuesday, May 15, 2018.

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

Present: Commissioners Ken Ross, Dennis Louney, David Price, and Sandra Zerkle. Also present: Commissioner Anthony Mullen, and Non-Voting Commissioners Douglas Jester (East Lansing).

Absent: Commissioner Beth Graham, and Non-Voting Commissioners Brian Ross (DeWitt Township) and William Long (Delta Township)

The Corporate Secretary declared a quorum.

Public Comments

None

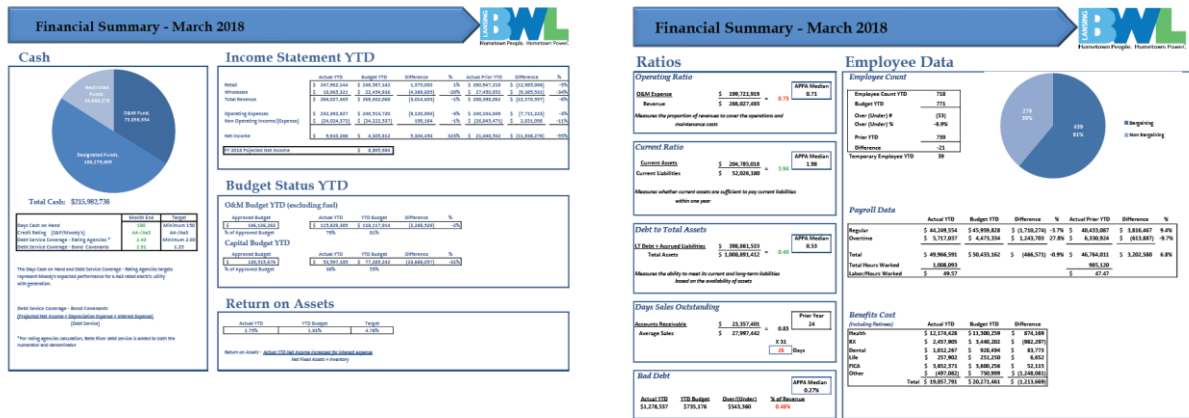
Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Louney, to approve the Finance Committee meeting minutes of March 13, 2018.

Action: Motion Carried.

March YTD Financial Summary

Chief Financial Officer (CFO), Heather Shawa presented the following:



Cash metrics, net income, and return on assets remain on track. Capital budget spending is consistent with YTD. Spending on capital is underspent with the primary driver of the new plant. The cost for long lead procurement items hasn't started yet so capital spend is 8% under rather than 31%. Ratios are consistent with the last few months. For Employee Data there is an FTE of 39 temporary employees. The budgeted headcount is 754 and it is higher this month because of 1st S.T.E.P. students. There are 700 active employees and 40 positions posted.

Cash Reserve Policy & Resolution

Scott Taylor, Finance Manager, presented the proposed Cash Reserve Policy Resolution. Currently, BWL operates under an informal policy. Mr. Taylor stated that it is a best policy practice to have a formal policy, which expresses a commitment to maintaining adequate reserves and remain financially sound, and rating agencies look favorably on such a commitment. Clearly defining the requirement and commitment to it, with a resulting slight increase in the target of days cash on hand, are the goals in the proposed policy. For each year of the six-year forecast the new policy includes a minimum cash reserve amount based on the following five risk factors:

- Operating expenditures
- Return on equity to the city
- Historical plans and service
- Debt service
- Capital improvements

Mr. Taylor reported that the policy is intended to be self-correcting and self-regulating by requiring that each budgeted forecast meet the minimum requirements. If the cash reserves were to fall below the minimum, the board would require necessary corrections in the next budget and forecast.

Commissioner Ross asked that since a goal of the policy wasn't to increase the target of days cash on hand but there may be a slight increase, what would happen under the current conditions if the policy was in place today. Mr. Taylor responded that the minimum cash days on hand would range between 153 and 159 days over the forecast period.

Motion by Commissioner Price, **Seconded** by Commissioner Louney, to forward the Cash Reserve Policy Resolution to the full Board for consideration.

Action: Motion Carried

FY 2019-2024 Budget & Forecast Presentation & Resolution

CFO, Ms. Shawa presented the FY 2019-2024 Budget & Forecast and Resolution.



- BWL Strategic Objectives
 - Strategy 6: Financial Stability
 - Target Metrics

- Strategy 6 Goal: Maintain the financial stability of the BWL
 - All of the BWL's ongoing efforts and strategic initiatives require funding. The balance between providing this funding and its impact on rates requires a comprehensive financial plan and rate strategy.
- Strategy 6, Objective 1: Practice good financial stewardship
 - Develop a Financial Plan that includes a rate strategy that provides financing for the BWL's capital program and replacement generation needs while maintaining competitive rates
 - Maintain an above average bond rating for municipal utilities
 - Identify cost savings through process improvement initiatives and return on investments with minimal impact on operations or employees
 - Commit to reviewing and consistently achieving targeted rate of return

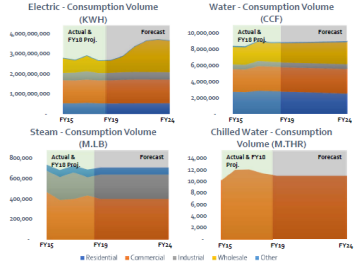
- BWL Strategic Objectives
 - Strategy 6: Financial Stability
 - Target Metrics

- Maintain High Credit Rating
 - The BWL is currently rated AA- by S&P and Aa3 by Moody's
- Ensure Adequate Liquidity
 - The BWL should have the ability to meet near term obligations when due
 - Minimum Cash Reserve Requirement: 155 Days
 - Debt Service Coverage Minimum Target: 2.00
- Return on Assets
 - An adequate return on assets is essential to municipal utilities
 - Ensures that current rate payers are not "kicking the can down the road" or deferring cost recovery to future generations
 - An appropriate return on assets recovers two main items:
 - Interest expense
 - Inflationary increase of infrastructure replacement costs
 - Board of Commissioners approved ROA target calculation
 - Return on Assets FY 2019 Target: 4.75%
- Maintain Rate Competitiveness

- Key Budget and Forecast Assumptions

- All forecast O&M expense increases, excluding fuel, were capped at 2% of the previous fiscal year.
- Eckert transitions from baseload operation to a seasonal capacity resource effective January 2019.
- Total employee count is budgeted at 751 for FY 2019 and declines in each succeeding year.
- Return on Equity to the city remains at 6.1%.
- The new plant is operational in early calendar year 2021.
- Bond interest is capitalized during the plant construction period.
- Major steam customer contract expires October 2022. Forecast assumes contract is renewed.

- Sales Volume History and Forecast by Utility, FY 25-24

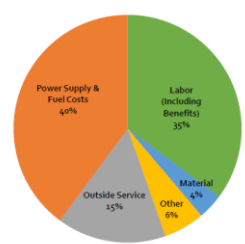


- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

	Electric	Water	Steam	Chilled Water	Total
FY 2019 Income Statement					
Sales (90% of 100% base fee)	2,096,761,023	8,938,944	708,226	50,885	2,096,761,023
Operating Expenses					
Residential	\$ 84,988,261	\$ 17,118,280	\$ 15,188	\$ -	\$ 102,101,629
Commercial	\$ 162,848,828	\$ 14,699,819	\$ 3,708,881	\$ 6,088,148	\$ 177,305,636
Industrial	\$ 41,425,428	\$ 2,207,253	\$ 3,173,342	\$ -	\$ 46,806,023
Wholesale	\$ 23,848,768	\$ 8,819,848	\$ -	\$ -	\$ 32,668,616
Other	\$ 12,088,013	\$ 6,521,350	\$ 1,278,419	\$ -	\$ 19,887,782
Total Operating Expenses	\$ 324,998,398	\$ 42,366,350	\$ 11,525,729	\$ 6,088,148	\$ 384,978,625
Operating Expenses	\$ 108,480,870	\$ 15,817,880	\$ 14,180,240	\$ -	\$ 138,479,090
Depreciation	\$ 155,748,705	\$ 7,547,880	\$ 23,664,797	\$ 1,777,777	\$ 187,739,260
Other Operating Expenses	\$ 120,869,823	\$ 2,450,220	\$ 3,330,192	\$ -	\$ 126,680,335
Total Operating Expenses	\$ 385,109,398	\$ 25,815,980	\$ 41,175,229	\$ 1,777,777	\$ 453,278,384
Total Operating Income	\$ 1,711,662,625	\$ 4,122,964	\$ 692,497	\$ 49,107	\$ 1,712,287,193
Return on Equity to City	\$ 115,642,412	\$ 2,299,000	\$ 2,188,215	\$ 679,035	\$ 118,198,724
Interest Expense	\$ 15,432,743	\$ 2,297,000	\$ 2,188,215	\$ 679,035	\$ 20,596,993
Other Non-Operating Income/Expense	\$ 774,721	\$ 1,111,102	\$ 207,200	\$ 20,200	\$ 1,093,223
Total Non-Operating Income/Expense	\$ 282,109,154	\$ 3,507,102	\$ 3,395,415	\$ 706,235	\$ 290,717,906
Total Net Income (Loss)	\$ 20,152,981	\$ 495,514	\$ (1,686,812)	\$ 1,816,888	\$ 20,152,981
Return on Assets - Effective 02/01/2019	3.0%	7.5%	2.5%	0.5%	3.5%
Target Return on Assets	4.75%	4.75%	4.75%	4.75%	4.75%

- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

FY 2019 Operating Expense by Category

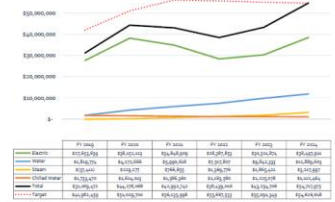


- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

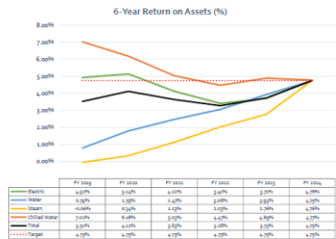
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
6-Year Income Statement						
Sales	\$ 2,096,761,023	\$ 2,128,240,000	\$ 2,160,000,000	\$ 2,192,000,000	\$ 2,224,000,000	\$ 2,256,000,000
Operating Expenses	\$ 385,109,398	\$ 400,000,000	\$ 415,000,000	\$ 430,000,000	\$ 445,000,000	\$ 460,000,000
Total Operating Income	\$ 1,711,651,625	\$ 1,728,240,000	\$ 1,745,000,000	\$ 1,762,000,000	\$ 1,779,000,000	\$ 1,796,000,000
Operating Expenses	\$ 108,480,870	\$ 110,000,000	\$ 112,000,000	\$ 114,000,000	\$ 116,000,000	\$ 118,000,000
Depreciation	\$ 155,748,705	\$ 158,000,000	\$ 160,000,000	\$ 162,000,000	\$ 164,000,000	\$ 166,000,000
Other Operating Expenses	\$ 120,869,823	\$ 122,000,000	\$ 124,000,000	\$ 126,000,000	\$ 128,000,000	\$ 130,000,000
Total Operating Expenses	\$ 485,099,398	\$ 490,000,000	\$ 496,000,000	\$ 502,000,000	\$ 508,000,000	\$ 514,000,000
Total Operating Income	\$ 1,226,552,227	\$ 1,238,240,000	\$ 1,249,000,000	\$ 1,258,000,000	\$ 1,267,000,000	\$ 1,276,000,000
Return on Equity to City	\$ 77,474,716	\$ 79,000,000	\$ 80,500,000	\$ 82,000,000	\$ 83,500,000	\$ 85,000,000
Interest Expense	\$ 15,432,743	\$ 16,000,000	\$ 16,500,000	\$ 17,000,000	\$ 17,500,000	\$ 18,000,000
Other Non-Operating Income/Expense	\$ 774,721	\$ 800,000	\$ 830,000	\$ 860,000	\$ 890,000	\$ 920,000
Total Non-Operating Income/Expense	\$ 282,109,154	\$ 286,800,000	\$ 291,330,000	\$ 295,860,000	\$ 300,390,000	\$ 304,920,000
Total Net Income (Loss)	\$ 20,152,981	\$ 20,240,000	\$ 20,330,000	\$ 20,420,000	\$ 20,510,000	\$ 20,600,000
Return on Assets	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Target Return on Assets	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

6-Year Return on Assets (\$)



- Operating Budget and Forecast
- FY 2019 Income Statement
- FY 2019 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow



- Operating Budget and Forecast
- FY 2019 Income Statement
- FY 2019 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Beginning Cash (GMM & Reserving Funds)	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000
Net Income	\$ 20,100,000	\$ 20,100,000	\$ 20,100,000	\$ 20,100,000	\$ 20,100,000	\$ 20,100,000
Depreciation and Loss on Disposal of Assets	\$ 48,111,100	\$ 47,788,200	\$ 47,465,300	\$ 47,142,400	\$ 46,819,500	\$ 46,496,600
Net WDA	\$ 17,980,100	\$ 17,666,800	\$ 17,353,500	\$ 17,040,200	\$ 16,726,900	\$ 16,413,600
Net Cash Flow	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000	\$ 80,991,000

- Capital Budget and Forecast
- 6-Year by Utility and Location
- 6-Year Major Projects
- 6-Year Minor Projects

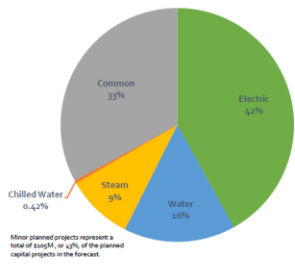
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Electric	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Water	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Steam	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Chilled Water	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Other	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Total	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000

- Capital Budget and Forecast
- 6-Year by Utility and Location
- 6-Year Major Projects
- 6-Year Minor Projects

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Electric	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Water	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Steam	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Chilled Water	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Other	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Total	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000

- Capital Budget and Forecast
- 6-Year by Utility and Location
- 6-Year Major Projects
- 6-Year Minor Projects

FY 2019-2024 Minor Planned Capital Projects by Utility



- Next Steps

- Finance Committee to accept, as presented, the Operating and Capital Forecast for FY 2019 – 2024, and recommend for Board of Commissioners' approval on May 22, 2018.
- Board of Commissioners to approve, as presented, the FY 2019 annual budget and file with the City Clerk within 10 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 Forecast for FY 2019 – 2024, and submit the Capital Forecast to the Mayor prior to October 1, 2018.
 - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1.

Commissioner Jester asked whether the wholesale electric revenue forecast was inclusive and whether it is a known bilateral arrangement, anticipated bilateral arrangement or an interchange. He explained that an interchange means that BWL will be buying and selling power to the MISO wholesale market which is a short term market and wanted to know the risks. George Stojic, Executive Director of Planning and Development, responded interchange.

Commissioner Zerkle asked about the change in Net Income in FY 2022. Ms. Shawa responded that the financing of the new plant begins in FY 2019 and in the second half of FY 2021 the new plant will come online and there will be a half year depreciation with interest capitalized only for that half year. Ms. Zerkle also inquired about the 6-year capital by utility and location and whether there were funds set aside for repairs for Eckert and GM Peffley responded that there was through O&M.

Commissioner Jester asked for what the \$148,00 was designated at Eckert. GM Peffley responded it is designated for costs for closing the plant.

Motion by Commissioner Price, **Seconded** by Commissioner Louney, to forward the proposed FY 2019-2024 Budget & Forecast Resolution to the full Board for consideration.

Action: Motion Carried

Capital Exceedance Resolution

CFO Heather Shawa introduced the Capital Project Exceedance resolution by briefly explaining that the budget for the project described in the resolution exceeds the amount originally budgeted and requested approval for the projected final cost of \$3,900,000.

Commissioner Ross commented that the six-year process doesn't appear to be giving the intended result with respect to the capital project exceedance. Commissioner Ross asked whether the process is as efficient and transparent as possible.

Commissioner Zerkle commented that the information is helpful for ranking priorities but not for approval six years out.

Commissioner Mullen commented that the capital project exceedance goals were set specifically due to an incident where a considerably larger amount of money was to be spent. He stated that goals within one to three years required explanation or resolution but questioned whether six year goals were required to be adhered to.

GM Peffley responded that a presentation on how finances are estimated, budgeted, and the percent of accuracy over each phase of projects would be beneficial for the Board. Ms. Shawa added that labor, materials, and other costs may change over time.

Commissioner Zerkle commented that it would be helpful to provide reports given at prior meetings to compare with current reports being provided.

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

Action: Motion Carried

Internal Audit Open Management Response Quarterly Report

Chief Financial Officer Heather Shawa presented management's responses to audits as follows:

STATUS OF MANAGEMENT RESPONSES TO AUDITS
APRIL 30, 2018



In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Updating of job descriptions is well underway, with estimated project completion by 6/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	Jan 2017	Human Resources	A plan for decoupling base and merit increases is nearing completion. The plan and corresponding instructional information, applicable to the fiscal year 2019 performance management cycle, will be finalized and communicated to management by 7/1/18.
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 as complete, 10 on track, 3 overdue, and 1 ongoing.
58	Succession Planning <i>NEW</i>	Internal Audit recommends that Succession Planning procedures be formally approved and updated annually.	March 2018	Human Resources	Annual updates to Succession Planning procedures will be drafted and submitted for executive management approval by 6/30/18.
59	Succession Planning <i>NEW</i>	Internal Audit supports identifying critical positions as soon as possible.	March 2018	Human Resources	A focus group is currently piloting a tool to assist with identification of critical positions which will be implemented on an organization-wide basis by 12/31/18.
60	Succession Planning <i>NEW</i>	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.

Closed Issues (since March 2018 report):

57	Identity and Access Management	Internal Audit recommends actions continue on as expedited a schedule as possible to fully implement an effective IAM program.	Feb 2018	Information Technology	The following actions have been completed: (1) drafting of IAM operation policy, processes, and procedures; (2) removal of all instances of global server accounts; (3) implementation of an automated system for managing privileged accounts; and (4) deployment of a threat identification system on servers.
----	--------------------------------	--	----------	------------------------	--

Commissioner Ross inquired about the overdue items. Ms. Shawa responded that she would follow up and provide the information to the Commissioners after the meeting.

Revised Investment Policy Statements & Resolution

Scott Taylor, Finance Manager presented two revised investment policy plans, the Defined Benefit (DB) Plan which is the traditional pension plan, and the VEBA Plan which covers the investments associated with providing health care benefits. Refinement in the policy index which will more accurately reflect real asset allocation in both the DB and VEBA plans and changing the discount rate from 7 ½ % to 7% in the DB plan, which relates to the maturation of the plan, are the main changes for which approval was requested.

Commissioner Ross noted that there was an amendment on page 13 of the DB plan changing the total return of the Policy index for BloomBar US Aggregate from 35-40% to 40-45%.

Motion by Commissioner Price, Seconded by Commissioner Louney, to forward the proposed Revised DB and VEBA Investment Policy Statements Resolution as presented to the full Board for consideration.

Action: Motion Carried

Other

None.

Excused Absence

Motion by Commissioner Price, **Seconded** by Commissioner Louney, to excuse Commissioner Graham from today's meeting.

Action: Motion Carried

Adjourn

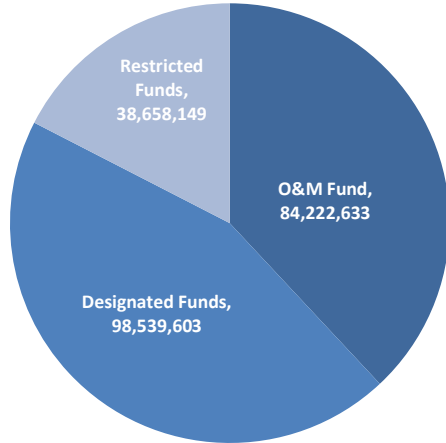
Motion by Commissioner Price, Seconded by Commissioner Louney, to adjourn the meeting.
Commissioner Ross adjourned the meeting at 8:45 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

Financial Summary - May 2018



Cash



Total Cash: \$221,420,385

	Month End	Target
Days Cash on Hand	192	Minimum 150
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage - Rating Agencies *	2.40	Minimum 2.00
Debt Service Coverage - Bond Covenants	2.91	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies targets represent Moody's expected performance for a Aa3 rated electric utility with generation.

Debt Service Coverage - Bond Covenants

$$\frac{\text{(Projected Net Income + Depreciation Expense + Interest Expense)}}{\text{(Debt Service)}}$$

*For rating agencies calculation, Belle River debt service is added to both the numerator and denominator

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%	Actual Prior YTD	Difference	%
Retail	\$ 298,082,719	\$ 297,620,700	462,019	0%	\$ 304,309,271	\$ (6,226,552)	-2%
Wholesale	\$ 23,133,480	\$ 28,359,054	(5,225,573)	-18%	\$ 25,537,876	\$ (2,404,396)	-9%
Total Revenue	\$ 321,216,199	\$ 325,979,753	(4,763,554)	-1%	\$ 329,847,148	\$ (8,630,949)	-3%
Operating Expenses	\$ 278,461,081	\$ 289,195,941	(10,734,860)	-4%	\$ 277,671,259	\$ 789,822	0%
Non Operating Income/(Expense)	\$ (26,672,820)	\$ (29,412,612)	2,739,792	-9%	\$ (30,071,235)	\$ 3,398,415	-11%
Net Income	\$ 16,082,298	\$ 7,371,201	8,711,097	318%	\$ 22,104,653	\$ (6,022,355)	-27%
FY 2018 Projected Net Income	\$ 8,895,984						

Budget Status YTD

O&M Budget YTD (excluding fuel)

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 146,136,282	\$ 129,399,139	\$ 135,150,499	(5,751,360)	-4%
% of Approved Budget	89%	92%		

Capital Budget YTD

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 139,515,676	\$ 70,251,532	\$ 110,891,760	(40,640,228)	-37%
% of Approved Budget	50%	79%		

Return on Assets

Actual YTD	YTD Budget	Target
3.85%	2.51%	4.78%

Return on Assets - $\frac{\text{Actual YTD Net Income increased for interest expense}}{\text{Net Fixed Assets + Inventory}}$

Financial Summary - May 2018



Ratios

Operating Ratio

O&M Expense	\$ 238,521,933	=	0.74	APPA Median 0.71
Revenue	\$ 321,216,199			

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

Current Ratio

Current Assets	\$ 205,407,415	=	3.69	APPA Median 1.98
Current Liabilities	\$ 55,717,561			

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 402,344,921	=	0.39	APPA Median 0.53
Total Assets	\$ 1,018,846,832			

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

Days Sales Outstanding

Accounts Receivable	\$ 21,455,878	=	0.78	Prior Year 25
Average Sales	\$ 27,594,367			
			X 31	
			24	Days

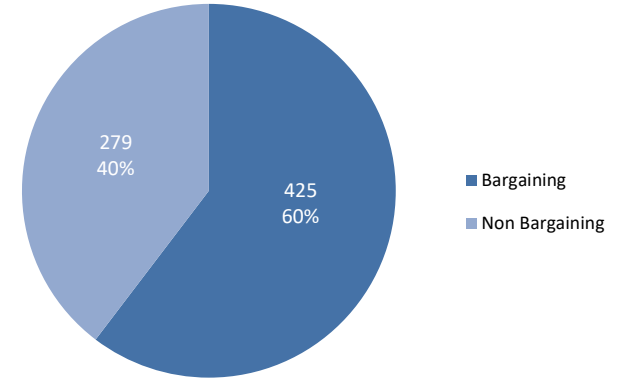
Bad Debt

				APPA Median 0.27%
Actual YTD	YTD Budget	Over/(Under)	% of Revenue	
\$1,632,577	\$898,549	\$734,028	0.51%	

Employee Data

Employee Count

Employee Count YTD	704
Budget YTD	771
Over (Under) #	(67)
Over (Under) %	-8.7%
Prior YTD	716
Difference	-12
Temporary Employee YTD	49



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Actual Prior YTD	Difference	%
Regular	\$ 53,109,179	\$ 55,243,486	\$ (2,134,307)	-3.9%	\$ 51,234,561	\$ 1,874,618	3.7%
Overtime	\$ 6,940,950	\$ 5,431,083	\$ 1,509,867	27.8%	\$ 7,565,267	\$ (624,317)	-8.3%
Total	\$ 60,050,129	\$ 60,674,569	\$ (624,440)	-1.0%	\$ 58,799,828	\$ 1,250,301	2.1%
Total Hours Worked	1,221,285				1,251,236		
Labor/Hours Worked	\$ 49.17				\$ 46.99		

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 14,745,347	\$ 13,723,777	\$ 1,021,570
RX	\$ 2,908,031	\$ 4,216,898	\$ (1,308,867)
Dental	\$ 1,221,375	\$ 1,134,826	\$ 86,549
Life	\$ 317,427	\$ 307,750	\$ 9,677
FICA	\$ 4,408,334	\$ 4,563,883	\$ (155,549)
Other	\$ (283,779)	\$ 893,669	\$ (1,177,448)
Total	\$ 23,316,734	\$ 24,840,803	\$ (1,524,069)

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



In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Updating of job descriptions is well underway, with estimated project completion by 6/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	Jan 2017	Human Resources	A plan for decoupling base and merit increases is nearing completion. The plan and corresponding instructional information, applicable to the fiscal year 2019 performance management cycle, will be finalized by 7/31/18 .
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 as complete, 10 on track, 3 overdue (pending legal review), and 1 ongoing. Verification of this information is underway.
58	Succession Planning	Internal Audit recommends that Succession Planning procedures be formally approved and updated annually.	March 2018	Human Resources	Updated Succession Planning procedures have been drafted and will be submitted for executive management approval by 7/31/18.
59	Succession Planning	Internal Audit supports identifying critical positions as soon as possible.	March 2018	Human Resources	A focus group is currently piloting a tool to assist with identification of critical positions which will be implemented on an organization-wide basis 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.

Closed Issues (since April 2018 report):

61	Cash Receipts <i>NEW</i>	Internal Audit discovered that the report of employees posting to their own account had not been able to be generated since the cybersecurity incident.	May 2018	Customer Service	In addition to the report being recreated and retroactively reviewed, management is periodically verifying that its review is a continuing effort.
62	Cash Receipts <i>NEW</i>	Access from lobby to cashiering area needed further restriction.	May 2018	Customer Service	Access was accordingly restricted.

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

General Responsibilities:

Internal Audit. The Internal Auditor is responsible for performing the annual Internal Audit Plan approved by the Finance Committee of the Board. This includes but is not limited to:

1. Informing management of any potential issues during audit engagements and briefing the results of audits including any findings prior to releasing a draft audit report to management.
2. Formally presenting the results of each audit engagement in writing. Reports of audit will include any reportable findings, recommendations, and management's responses to the findings and recommendations.
3. Following up on previous audit findings and management responses to ensure that the corrective action(s) noted in the responses were in fact taken, and that those actions corrected the problem(s) identified.

Management. Management is to respond with actionable responses to each reported finding and recommendation in the internal auditor's report within an agreed-upon timeframe. Each management response should contain the following:

1. Acknowledgement of agreement (or disagreement if applicable) with the audit finding and recommendation.
2. A specific action or actions being taken (or ~~already taken~~completed) to address the problem(s) noted in the finding and recommendation.
3. A statement that either affirms that the stated corrective action(s) has/have already been completed or, if not, an estimated date when management believes the corrective action(s) will be completed. The estimated completion date should be management's best estimate, based on available resources, priorities and schedules as to when the corrective action(s) can reasonably be expected to be completed.

Follow-Up of Open Management Responses to Audit Findings:

1. Schedule of Open Actions. For each management response for which the corrective action is to be completed by an estimated future date, a schedule will be developed to track, on at least a ~~quarterly~~biannual basis, the status of such corrective action(s) until they are completed.

- a. There should be a notation ~~each quarter~~ biannually regarding progress, ~~if any,~~ toward completion of the corrective action. If other priorities precluded further progress during a ~~quarter~~ biannual period, this should be so stated.
- b. The Internal Auditor will receive an updated schedule ~~each quarter~~ biannually and keep the Finance Chair apprised of action completion and status.

2. Schedule Usage.

- a. Management. Management will use the schedule as a tool for reporting progress on open corrective actions to the Finance Committee ~~quarterly~~ biannually.
- b. Internal Auditor. The Internal Auditor will use the schedule to help in future planning efforts and to ensure that management's corrective actions are being implemented as stated in the management responses to audit reports.

Motion by Commissioner Bossenebery, Seconded by Commissioner McCloud to approve said Policy on follow up to the Internal Audit Findings and Recommendations.

Motion: Carried Unanimously

Proposed
RESOLUTION

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

General Responsibilities:

Internal Audit. The Internal Auditor is responsible for performing the annual Internal Audit Plan approved by the Finance Committee of the Board. This includes but is not limited to:

1. Informing management of any potential issues during audit engagements and briefing the results of audits including any findings prior to releasing a draft audit report to management.
2. Formally presenting the results of each audit engagement in writing. Reports of audit will include any reportable findings, recommendations, and management's responses to the findings and recommendations.
3. Following up on previous audit findings and management responses to ensure that the corrective action(s) noted in the responses were in fact taken, and that those actions corrected the problem(s) identified.

Management. Management is to respond with actionable responses to each reported finding and recommendation in the internal auditor's report within an agreed-upon timeframe. Each management response should contain the following:

1. Acknowledgement of agreement (or disagreement if applicable) with the audit finding and recommendation.
2. A specific action or actions being taken (or completed) to address the problem(s) noted in the finding and recommendation.
3. A statement that either affirms that the stated corrective action(s) has/have already been completed or, if not, an estimated date when management believes the corrective action(s) will be completed. The estimated completion date should be management's best estimate, based on available resources, priorities and schedules as to when the corrective action(s) can reasonably be expected to be completed.

Follow-Up of Open Management Responses to Audit Findings:

1. Schedule of Open Actions. For each management response for which the corrective action is to be completed by an estimated future date, a schedule will be developed to track, on at least a biannual basis, the status of such corrective action(s) until they are completed.
 - a. There should be a notation biannually regarding progress toward completion of the corrective action. If other priorities precluded further progress during a biannual period, this should be so stated.
 - b. The Internal Auditor will receive an updated schedule biannually and keep the Finance Chair apprised of action completion and status.
2. Schedule Usage.
 - a. Management. Management will use the schedule as a tool for reporting progress on open corrective actions to the Finance Committee biannually.
 - b. Internal Auditor. The Internal Auditor will use the schedule to help in future planning efforts and to ensure that management's corrective actions are being implemented as stated in the management responses to audit reports.

(This Resolution supersedes RESOLUTION #2014-07-05 adopted on July 22, 2014.)



Internal Audit Status Report

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

Overview

- FY 2018 Audit Plan Progress Report
- Proposed FY 2019 Audit Plan
- Other Items

FY 2018 Audit Plan Progress Report

Engagements Completed:

1. Follow-up Hiring Process Audit (FY17 carryover)
2. Payroll Management Audit (FY17 carryover)
3. Identity and Access Management Audit (FY17 carryover)
4. Water Production Data Management Audit
5. Succession Planning Audit
6. Cash Receipts Audit
7. Consulting – Payroll and Billing Controls
8. Surprise Cash Counts (2)
9. Employee Time Reporting Reviews (2)

FY 2018 Audit Plan Progress Report, cont'd

Engagements in Progress:

1. Customer Arrangements/Third Party Payments Audit (almost complete, final report to be issued shortly)
2. Physical Security Audit (draft report out shortly)
3. Contract Signature Authority Compliance Audit (75% complete)

Proposed FY 2019 Audit Plan - Background

Basis for plan:

1. Meetings with Executives and Staff to discuss risks and potential audit topics.
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 at least 26 potential audits to perform in FY 2019 and beyond.

Proposed FY2019 Audit Plan - Background

Top 10 Engagements for FY 2019 (as discussed and agreed with senior management):

- 1. Follow-up – IT Change Management***
- 2. IT – Cybersecurity (software security or vulnerability management)***
- 3. Power Purchase Agreements***
- 4. Accounts Payable***
- 5. BSMART – Organization Change Management (consulting)***
- 6. Asset Management (consulting)***
- 7. Metering Services***
- 8. Vegetation Management***
- 9. Procurement***
- 10. Project Engineering – Planned Projects***

Proposed FY 2019 Audit Plan

Planned Audits:	Estimated Hours
Follow-up – IT Change Management	300
IT Cybersecurity	300
Power Purchase Agreements	300
Accounts Payable	300
Metering Services	300
Vegetation Management	300
Procurement	300
Project Engineering – Planned Projects	300
Other Engagements:	
Consulting – BSMART Org Change Mgt	200
Consulting – Asset Management	200
Consulting – Other (TBD)	200
Surprise Cash Count (2)/Time Rpt Rev (2)	200
Total Required Hours	3,200

Proposed FY 2018 Audit Plan, Cont'd

Available Resources:

Resource	Position	Available Hours
Phil Perkins	Director of Internal Audit	1,500
Charles Randall	Senior Internal Auditor	1,700
Total Hours		<u>3,200</u>

Proposed FY 2019 Audit Plan, Cont'd

- Questions?
- Recommend Approval of FY 2019 Audit Plan

Other Items

1. Internal Auditor Continuing Professional Education/Certification Status:

- 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. Internal Audit Charter – Annual Renewal

- Proposed revisions are to better recognize:
 - The analysis of risks relating to the achievement of strategic objectives when developing audit plans.
 - The Core Principles for the Professional Practice of Internal Auditing* as part of mandatory guidance for the internal auditing profession.

Other Items, cont'd

*Core Principles for the Professional Practice of Internal Auditing:

1. Demonstrates Integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence.
4. Aligns with strategies, objectives and risks of the organization.
5. Appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive and future-focused.
10. Promotes organizational improvement.

Lansing Board of Water and Light Internal Audit Charter - 2015 8 Proposed Revision

Formatted: Font color: Red

Formatted: Font color: Red

Mission:

The mission of internal audit is to provide independent, objective auditing and consulting services to the Board of Commissioners, enabling the Board to better serve customers, employees, and the community.

Purpose:

Internal audit's purpose is to add value and improve operations. It helps BWL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Independence:

The Internal Auditor is appointed annually by the Board of Commissioners, and reports to them through the Chair of the Finance Committee. For administrative purposes, the Internal Auditor also reports to the General Manager. To ensure independence, the internal audit function shall have no direct responsibility or any authority over any of the activities or operations of the BWL.

Authority:

Internal Audit shall have unrestricted access to all activities, records, properties, and personnel. All processes, activities, and responsibility areas are subject to audit.

Responsibility and Scope:

Management is responsible for establishing and maintaining risk management, control, and governance processes. Internal Audit is responsible to determine whether management's processes are adequate and functioning in a manner to ensure:

- Risks relating to the achievement of strategic objectives are appropriately identified and managed.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately accounted for and protected.
- Management, eEmployees' and contractor actions are in compliance with policies, procedures, standards, laws, regulations and contracts.
- The results of operations or Pprograms, plans and objectives are achieved are consistent with established goals and objectives, and such operations and programs are carried out effectively and efficiently.

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Red

Lansing Board of Water and Light
Internal Audit Charter - 2015⁸ Proposed Revision

Regarding the scope of requested consulting activities, Internal Audit shall perform consulting and advisory services related to governance, risk management and control as appropriate for the organization.

Formatted: Font color: Red

Formatted: Font color: Red

Lansing Board of Water and Light Internal Audit Charter - 2015~~8~~ Proposed Revision

Formatted: Font color: Red

Formatted: Font color: Red

Standards:

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing; Definition of Internal Auditing (as shown in the purpose statement above); 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 the internal audit activity's performance. The Director of Internal Audit will report periodically to senior management and the Board regarding the internal audit department's conformance to the Code of Ethics and the Standards.

Formatted: Font color: Red

Formatted: Font color: Red

As supplemental guidance for the performance of audits, the Internal Auditor shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office.

Internal Audit Plan:

At least annually, the Director of Internal Audit will submit to the General Manager and the Board 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. Any significant deviation from the approved internal audit plan will be communicated to the General Manager and the Board through periodic activity reports.

Periodic Assessment:

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

Lansing Board of Water and Light
Internal Audit Charter - 2015 58 Proposed Revision

RESOLUTION 2015-07-09

INTERNAL AUDITOR CHARTER APPROVAL

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

Motion by Commissioner Louney, Seconded by Commissioner Bossenbery to approve the resolution for the Internal Audit Charter.

Action: Carried Unanimously

Excerpted from the Minutes of the July 28, 2015 meeting of the BWL Board of Commissioners.

Formatted: Font color: Red

Formatted: Font color: Red

Proposed Resolution

Internal Audit Charter Approval

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