



**LANSING BOARD OF WATER & LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
January 14, 2025 – 6:00 P.M.
Board of Water & Light Headquarters – REO Town Depot
1201 S. Washington Ave., Lansing, MI 48910**

Finance Committee: Tony Mullen, Committee Chairperson; Semone James; Dale Schrader; and David Price; Alternates: Beth Graham, Sandra Zerkle; Non-Voting: J. R. Beauboeuf, Robert Worthy, Stuart Goodrich

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

AGENDA

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Approval of the Finance Committee Meeting Minutes of November 7, 2024**TAB 1**
- 2. YTD Financial Summary**TAB 2**
- 3. Internal Audit Findings & Recommendations**TAB 3**
- 4. Internal Audit Status Report.....**TAB 4**

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
November 7, 2024

Finance Committee: Tony Mullen, Committee Chairperson; Semone James; David Price; and Dale Schrader;
Alternates: Beth Graham, Sandra Zerkle; Non-Voting: Commissioners J. R. Beauboeuf, Stuart Goodrich, Robert Worthy.

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, November 7, 2024.

Finance Committee Chairperson Tony Mullen called the meeting to order at 6:21 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Semone James, Tony Mullen, David Price, and Dale Schrader; Also Present: Commissioners Tracy Thomas, Sandra Zerkle (Alternate), and Non-Voting Commissioner Bob Worthy (Delta Township)
Absent:

The Corporate Secretary declared a quorum.

Public Comments

There were no public comments.

Approval of Minutes

Motion by Commissioner Semone James, **Seconded** by Commissioner David Price, to approve the Finance Committee Meeting minutes of September 10, 2024.

Action: Motion Carried.

Baker Tilly External FY24 Audit Report

Accounting, Finance and Planning Director Scott Taylor introduced Accounting, Finance and Planning Manager, Ying Yan and commended Lisa Neuman, Reports Property & Accounting Supervisor with her work on the audit. Ms. Yan introduced external auditor Aaron Worthman, Partner and CPA at Baker Tilly US, LLP. Mr. Worthman presented and highlighted the external audit report which included an audit overview, observations and recommendations, and required communications to governing body. The financial statements include the auditors' report, management and discussion analysis, Enterprise fund statements, pension and OPEB (Other Post-Employment Benefits) trust statements. Mr. Worthman reported that there were no deficiencies in internal controls and that the BWL and all three pension plans received unmodified audit opinions, which is a clean opinion and the highest level of assurance. The controls were reviewed in disbursements, payroll, utility billings, cash and investments, capital assets, information technology and financial reporting.

Commissioner Schrader asked whether the power purchase agreements were part of the operating expenses and Mr. Worthman affirmed.

Ms. Yan commented that BWL will be working with Baker Tilly on a single audit with the federal grants received and plan to have the audit completed by the middle of December.

Motion by Commissioner David Price, **Seconded** by Commissioner Dale Schrader, to forward the Resolution for the FY2024 Audited Financial Statements of the Enterprise Fund and Pension Fiduciary Funds to the full Board for consideration.

Action: Motion Carried.

September YTD Financial Summary

Assistant General Manager Heather Shawa presented the September YTD Financial Summary. Days Cash on Hand is well above the target, wholesale revenue is down due to the market, and non-operating income/expenses is plus due to interest income. The capital budget is under mainly due to timing; additionally, a new energy budget category has been added to the financial summary. Although bad debt is above the benchmark, additional funding and support from opting into the PA95 program has been secured and there is a twelve month hold with the collection agency on the bad debt.

Commissioner Mullen requested a discussion on the benefits of opting into PA95 and a comparison of customer shutoffs before and after opting in, to make sure that fewer customers are being shut off. Ms. Shawa responded that it is on the internal auditor's work plan for the year and about \$1.5 million in funding has been made available to customers.

Commissioner Zerkle requested that information from FY2023, FY2024 and FY2025 be included in the PA95 audit to obtain a clear picture of the benefits and assistance. GM Peffley added that PA95 will become law and Senator Singh has worked on legislative changes to help utilities.

Commissioner James asked how the healthcare costs of prescription drugs, specifically GLP-1s, would be addressed. Ms. Shawa responded that parameters were added for participants to complete before receiving the benefits.

Capital Project Report

Ms. Shawa presented the Capital Project Report. Under annuals, the Electric T&D is the majority of the electric items on the watch list. Transformers account for \$4 million of the \$6.2 million variance as they were one of the hardest hit items in the supply chain in which BWL is catching up. GM Peffley added that surplus inventory is preferred as areas affected by the recent hurricanes have hundreds of substations to rebuild and supplies may be diverted by the government. Ms. Shawa will provide updates at each Finance Committee Meeting and bring exceedance requests to the board when they are needed.

Commissioner Leek asked when the solar project site work clearing at Delta Energy Park will start. GM Peffley responded that four or five projects will go in BWL's service territory, and the panels

are in stock, the land deals are almost in place, and construction is expected to start within the next month. Commissioner Leek asked if BWL was working with the Lansing School District to put solar on some properties. GM Peffley responded that it is expensive, and they need funding, but continuous talks are taking place.

November 2024 Internal Audit Status Report

Director of Internal Audit, Elisha Franco, presented the Internal Audit Status Report. Ms. Franco reported that the FY2025 Payroll Audit is complete, and the final report has been issued, and that the remittance/cash receipts audit will begin in November. A follow up report on PA 95 will be conducted from April to June 2025, and tentatively a P-Card audit will be conducted from March to May 2025. The implementation and testing phase of AuditBoard will begin and risk assessments will be calculated and completed using AuditBoard. Plante Moran will assist with the internal audit assessment to evaluate current internal audit practices and procedures; with Gap Analysis to identify areas for improvement to align with industry best practices and Global Internal Audit Standards; with AuditBoard support to help with the implementation and testing of the system; and with providing assistance with key internal audit functions.

FY 2025 Payroll Audit Results

Director of Internal Audit, Elisha Franco, presented the FY 2025 Payroll Audit results and thanked Executive Director of Human Resources Michael Flowers and Human Resources Manager Dan Barnes for their help. The audit covered payroll processes, procedures, BWL FMLA policy, and payroll transactions during fiscal year 2024. The two medium-risk observations were the current payroll procedures and process documentation are not regularly updated, which may lead to inconsistencies in payroll practices and increased risk of errors; and there is insufficient oversight with multiple employees modifying the active payroll master data file, and changes to benefits and compensation in the payroll master file are not subject to review or approval by a human resources supervisor or a manager. This lack of oversight increases the risk of unauthorized changes and potential inaccuracies in payroll processing. The recommendations are that management establishes a review cycle for all payroll and procedure documents, ensuring that the date of the latest update is included within each document; and that the payroll administrator completes all modifications to the active payroll master file with a human resources supervisor or manager review and sign off on changes. An overall opinion rating of sufficient was given which means no critical or high-level risk areas were identified and the impact of identified control weaknesses exposes the payroll process in scope to limited risk. Some management effort is required to correct the findings and recommendations.

Chairperson Mullen commented that there have been committee meeting items that have been moved between committees that he didn't think should be moved as each committee has a specific area of focus. Commissioner James responded that those who requested to move the discussion items from HR and Finance committee meetings were directed to discuss the rationale of moving the items to COW with the committee chairs and receive their approval in order to place them on the COW agenda. It was communicated to me that this had occurred and that there were no issues regarding moving the items to COW. Commissioner Price responded that the item that was moved had to do with Board responsibilities in the new internal audit standards

and it was determined that it should be discussed with the whole board in the Committee of the Whole meeting. Commissioner Zerkle responded that the three committee are for a purpose, each committee has a responsibility and any of the Commissioners can sit in on the committees.

Commissioner Thomas commented that Commissioner Mullen made a fair point, Also, that the matter had been discussed in the previous Committee of the Whole meeting.

Commissioner Thomas also commented on his excitement of seeing BWL trucks assisting with putting up holiday decorations in downtown Lansing and complimented the staff involved that seemed to be in such good spirit. GM Peffley shared he would pass on Commissioner Thomas' compliments to the BWL staff assisting with holiday decorating in downtown Lansing.

Other

There was no other business.

Adjourn

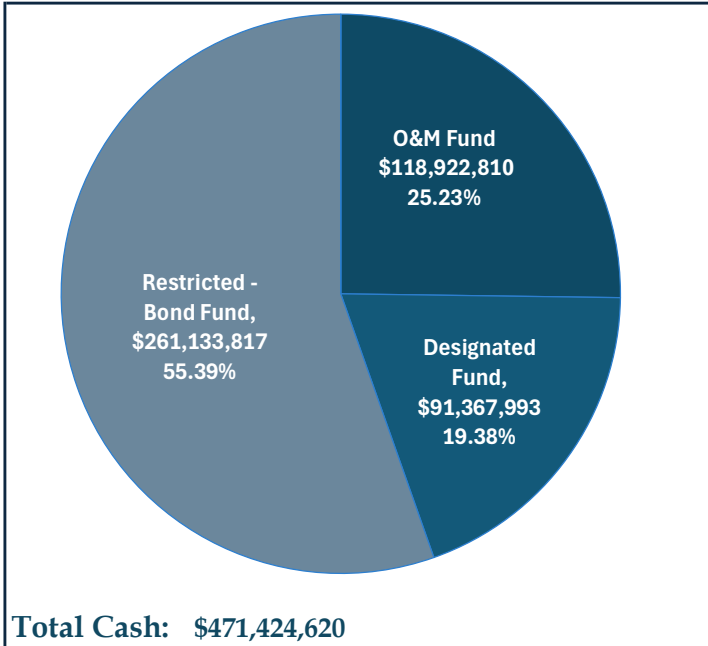
Chairperson Tony Mullen adjourned the meeting at 7:22 p.m.

Respectfully submitted,
Tony Mullen, Chairperson
Finance Committee

Financial Summary - November 2024 - FY25



Cash



Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 174,399,141	\$ 172,266,024	\$ 2,133,117	1%
Wholesale	\$ 14,725,862	\$ 26,523,921	\$ (11,798,059)	-44%
Total Revenue	\$ 189,125,003	\$ 198,789,944	\$ (9,664,942)	-5%
Operating Expenses	\$ 157,728,034	\$ 166,732,173	\$ (9,004,139)	-5%
Non Operating Income/(Exp)	\$ (17,376,156)	\$ (22,779,316)	\$ 5,403,160	-24%
Net Income	\$ 14,020,812	\$ 9,278,455	\$ 4,742,357	51%
FY 2025 Budgeted Net Income		\$ 12,559,678		

Budget Status YTD

O&M Budget YTD (excluding fuel)				
FY 2025 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 194,854,057	\$ 82,099,798	\$ 78,713,619	\$ 3,386,178	4%
<i>% of Approved Budget</i>	42%	40%		
Capital Budget YTD				
FY25 Approved CIP Budget	Actual YTD	Budget YTD	Difference	%
\$ 87,791,518	\$ 20,681,626	\$ 28,821,186	\$ (8,139,560)	-28%
<i>% of Approved Budget</i>	24%	33%		
FY25 New Energy Budget	Actual YTD	Budget YTD	Difference	%
\$ 99,764,537	\$ 31,247,615	\$ 36,285,820	\$ (5,038,205)	-14%
<i>% of Approved Budget</i>	31%	36%		

Return on Assets

Actual YTD	Budget YTD	Target
1.55%	1.55%	3.97%
Return on Assets = YTD Net Income + YTD Interest Expense - YTD Interest Income Net Fixed Assets + Inventory		

	Month End	Target
Days Cash on Hand	175	149
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	2.16	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

Financial Summary - November 2024 - FY25



Ratios

Operating Ratio

O&M Expense	\$	131,864,130	=	0.70	APPA Median 0.76
Revenue	\$	189,125,003			

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

Current Ratio

Current Assets	\$	291,532,306	=	2.42	APPA Median 1.73
Current Liabilities	\$	120,347,127			

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$	1,303,637,109	=	0.64	APPA Median 0.56
Total Assets	\$	2,040,503,920			

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

Days Sales Outstanding

Average Accounts Receivable	x Days	\$	28,818,708	x 30 =	27	Prior Year 25
Retail Revenue		\$	31,892,004			

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

Bad Debt

12 Month Bad Debt Exp	\$	2,215,244	=	0.54%	Prior Year 0.65%
12 Month Retail Revenue	\$	408,513,730			

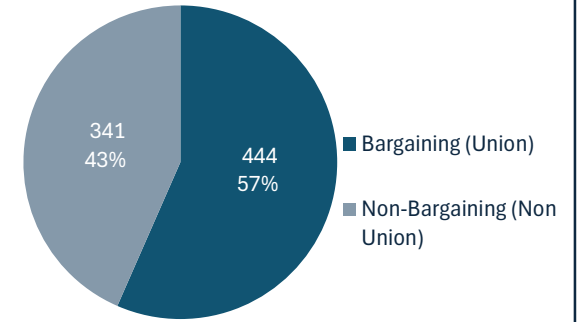
Measures the portion of each retail revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	785
Budget YTD	820
Over/(Under) #	(35)

Full Time Equivalent Temporary Employees	32
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Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 34,952,316	\$ 35,216,093	\$ (263,777)	-0.7%	\$ 58.84
Overtime	\$ 3,494,093	\$ 3,183,096	\$ 310,997	9.8%	
Total	\$ 38,446,409	\$ 38,399,189	\$ 47,220	0.1%	
Total Hours Worked	618,965				
Labor \$/Hours Worked	\$ 62.11				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 6,616,343	\$ 7,472,242	\$ (855,898)
Rx	\$ 2,138,347	\$ 2,214,316	\$ (75,969)
Dental	\$ 568,620	\$ 572,915	\$ (4,295)
Life	\$ 226,047	\$ 271,250	\$ (45,203)
FICA	\$ 2,765,444	\$ 2,812,122	\$ (46,678)
Other	\$ 304,754	\$ 518,460	\$ (213,706)
Total	\$ 12,619,554	\$ 13,861,305	\$ (1,241,750)

Follow-up to Internal Audit Findings & Recommendations

Finance Committee 1/14/2025



Hometown People. Hometown Power.

Resolution #2018-07-05

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

Internal Audit

- Perform audits, report findings, provide recommendations, records management responses, verify completion of corrective actions

Management

- Responds to findings and recommendations, identify and execute appropriate and timely corrective actions

Follow-up of Open Management Responses to Audit Findings

- An open action item list is maintained for progress tracking by Internal Control.
- Management reports progress to the Finance Committee semi-annually (Jan. & July)

Open Findings & Recommendations

FY 2024 Rules and Regulations

- Management should include the electric residential security deposit calculation in the Rules and Regulations schedule/chart of fees and charges.
 - This addition will be made when the Rules and Regulations are next updated in October 2025.
- Management should revise the timing of the Rules and Regulations updates to be included within the BWL's rate strategy. The rate strategy should include a review of all Rules and Regulations fees and charges.
 - This timing change will be made effective with the next review and update of Rules and Regulations planned for October 2025.

Open Findings & Recommendations

FY 2024 Rules and Regulations

- Legal Affairs leads the Rules and Regulations review process, with the Finance Department responsible for calculating, overseeing, and approving all fees and charges.
 - The Rules and Regulations update planned for October 2025 will be conducted in a manner consistent with this recommendation.
- Management should revise the security deposit interest rate to be updated on October 1 each year to align with the rate strategy.
 - Effective October 2025, the Rules and Regulations and associated fees and charges review and update will coincide with the BWL Rate implementation schedule.

Closed Findings & Recommendations

Retirement Plan Committee

- Draft and adopt a formal Retirement Plan Committee Charter.
 - Per Resolution #2023-05-08, the RPC draft and adopt a formal charter to be approved by the Board. The RPC has drafted a charter and was approved by the Board of Commissioners in July.

Closed Findings & Recommendations

FY 2024 Rules and Regulations

- Management should establish a formal process and procedure for updating revised Rules and Regulation fees and charges in the Joint Use Department customer billing forms.
 - A new procedure was developed for updating revised fees and charges in the Joint Use Department customer forms for billing.
- Management should establish a formal process and procedure to track Renewable Energy Generator Interconnection application fees billed and collected.
 - A formal process and procedure was created to track Renewable Energy Generator interconnection application fees billed and collected.

Closed Findings & Recommendations

Public Act 95 (PA 95)

- Create comprehensive documentation outlining the crucial roles and responsibilities of each entity involved in PA 95, including MDHHS, BWL, and any collaborating agencies.
- Management has developed a document outlining the crucial roles and responsibilities of each entity involved in PA 95, including MDHHS, BWL, and participating agencies.

Closed Findings & Recommendations

Payroll Audit

- Changes to the payroll file should be limited to one individual, and a supervisor should review and approve benefits and compensation changes to ensure accuracy and completeness.
 - With the implementation of Workday, all business changes now include notifications or approval steps to ensure proper review of any edits to the master payroll file.
- Management establish a review cycle for all payroll process and procedure documents, ensuring the latest update date is included.
 - With the implementation of Workday, all business process documents will be reviewed and updated annually.

Thank you!

Internal Audit Status Report

Finance Committee Meeting
January 2025



HOMETOWN PEOPLE. HOMETOWN POWER.

Overview

- Audit Progress Report
- Remaining FY 2025 Audit Plan
- Other Items

Audit Updates

- The remittance/cash receipts audit began in November 2024 and is currently underway.
- All findings and recommendations with due dates of December 31, 2024, as identified by management, have been resolved.
- There are four remaining open findings and recommendations from the rules and regulations audit, which are scheduled to be completed by October 2025.

FY 2025 Audit Plan



Payroll Management- Complete

Remittance/Cash Receipts-
November 2024-March 2025

Follow-up PA 95- April-June 2025

P-Card (Tentative)- March 2025-May
2025

Other Items

Departmental Items

AuditBoard Update:

- We have successfully launched AuditBoard and are currently using the system for the remittance/cash receipt audit.

Plante Moran has been consulted to assist with the following:

- **Support for Internal Audit Activities:** Providing assistance with internal audits.
- **Completed the internal audit assessment, gap analysis, and AuditBoard implementation support.**

Other Items

Departmental Items

Professional Development:

- On track to meet the professional education requirements for CIA certification, with completion expected by December 2025.