

# AGENDA

## FINANCE COMMITTEE MEETING

March 10, 2015

6:00 P.M. – 1201 S. Washington Ave.

REO Town Depot

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of 11/11/14..... **TAB 1**
2. Internal Auditor Update..... **TAB 2**
3. Financial Overview for Year to Date End January 2015..... **(DISCUSSION ONLY)**
4. Signature of Authority Resolution..... **TAB 3**
5. Authority to Invest Operating and Pension Funds Resolution..... **TAB 4**

Adjourn

## **FINANCE COMMITTEE**

**November 11, 2014**

The Finance Committee of the Board of Water and Light met at the BWL Headquarters – REO Town Depot located as 1201 S. Washington Ave., Lansing, MI, at 6:55 on Tuesday, November 11, 2014

Finance Committee Chairperson Dennis M. Louney called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Dennis Louney, Margaret Bossenbery, Tony Mullen and Sandra Zerkle;  
Also present, Commissioner Price and Ward

Absent: None

The Corporate Secretary declared a quorum.

### **Public Comments**

There was no Public Comment

### **Approval of Minutes**

**Motion** by Commissioner Bossenbery, Seconded by Commissioner Zerkle to approve the Finance Committee meeting minutes of September 9, 2014.

**Action:** Carried Unanimously

### **Proposed Resolution**

#### **Authority to Invest Operating and Pension Funds**

RESOLVED, that Board of Water and Light Policy 7-01 “Authority to Invest Operating and Pension Funds” is hereby amended as follows:

RESOLVED, that the General Manager and the Chief Administrative Officer shall be authorized to establish all necessary cash and investment accounts and to enter into all necessary transactions and agreements required to provide for the investment of operating and pension funds in the name of the Board of Water and Light (BWL), in such securities as permitted by law. Allowable transactions include, but are not limited to, the purchase, sale, and endorsement for transfer of certificates representing said securities. All transactions must also be in compliance with the then current BWL Pension and Operating Fund Investment Policies.

RESOLVED, that the General Manager and/or the Chief Administrative Officer may delegate full or limited investment authority to other specified BWL staff. The General Manager and/or Chief Administrative Officer shall document the extent of authority delegated as well as the specific BWL staff receiving said authority. Only employees with actual, documented authority may be permitted to execute investment activities.

The Revenue Bond Act of 1933 (PA 94 of 1933, MSA5.2731), as amended, Act 20 of 1943, as amended, and BWL Bond Resolution 89-10-3 govern and restrict the investment of BWL operating funds. Pension funds are governed by the Public Retirement System Investment Act (MCL 38.1132 et seq.), as amended.

This resolution supersedes Resolution 2009-12-8

General Manager Lark stated that due to organizational and title changes, this resolution is necessary to incorporate the new title and or position of the Chief Administrative Officer. General Manager Lark respectfully requested the Board to forward the proposed Resolution of signature authority to the full Board for consideration.

**Motion** by Commissioner Bossenbery, seconded by Commissioner Mullen.

**Action:** Motion Carried

### **Purchasing Policy Report**

General Manager Lark provided an annual update on the Board of Water & Light's Procurement Policy. General Manager Lark reviewed the following:

- Sole source contracts in an amount equal to or greater than \$5,000
- Emergency contracts in an amount equal to or greater than \$5,000

General Manager Lark stated the two above have been combined, and within that combination there are 3 groups:

- Group 1 is Non-Stock Material and Services
- Group 2 is Contract Releases
- Group 3 is Stock Material
- Contracts with a term exceeding thirty-six consecutive months –

General Manager Lark stated that there are two contracts both of which are greater than three years which provide a good attractive financial rate for the BWL.

- Lime and Gypsum for the Water Plant
- General Electric Railcar Service Company for leasing of railcars
- Mr. Lark stated that there was no litigation to report.

### **Quarterly Financial Update**

General Manager reviewed the 1<sup>st</sup> Quarter Financial Report.

Actual v. Budgeted Variance in Combined Utility Net Income  
Fiscal Year to Date September 30, 2014  
Compared to FY 2015 Budget

	(\$000)
Budgeted Net Income	4,545
Changes in Operating Income:	
<u>Revenue Changes (net of fuel)</u>	
Retail Electric	(362)
Wholesale Electric	(1,413)
Water Sales	(557)
Steam Sales	(313)
Chilled Water Sales	(85)
<u>Operating Expense Changes</u>	
Depreciation	700
Labor, Material, and Other	4,688
Other	<u>283</u>
Subtotal Changes in Operating Income	2,941
Changes in Other Income:	
Interest Earnings	(423)
Other Income	172
Return on Equity	475
All Other - Non-Operating Variances	<u>13</u>
Subtotal Changes in Other Income	<u>236</u>
Actual Net Income	7,722

Revised Combined Utility Net Income  
Projection Fiscal Year 2015  
Based on 1<sup>st</sup> Quarter Operating Results

<b>Net Income Projection - FY2015</b>	
	(000s)
<b>Net Income - Original Budget - Annual</b>	<b>\$ 2,534</b>
FYTD Favorable Income Variance <i>(\$7,723 actual minus \$4,545 budget)</i>	\$ 3,178
Temporary O&M Expense Timing Differences	\$ (4,688)
Temporary Non-Operating Income Timing Differences	\$ 239
<b>Projected Net Income</b>	<b>\$ 1,262</b>

General Manager Lark stated that the Financial Management Team is beginning their first quarter budget reviews to see if the budgeted net income really is \$4.5 million or if it is \$5.6 million or \$3.6 million. Mr. Lark said that we are hoping to have a net income of \$2.5 million but taking into account other expenses that might come in we could have a net income of \$1.2 million rather than \$2.5 million we hope for.

**Proposed Resolution Directing GM to present recommendations to the Board Regarding Future Reporting of Financial Information Metrics**

After discussion regarding what and how information should be provided to the Board it was determined that this business would be set in action by a directive motion and not a resolution.

Resolution Directing General Manager to Provide Recommendations  
Regarding Future Reporting of Financial Information and Metrics

**WHEREAS**, the May 5, 2014 Community Review Team Report recommended that the Lansing Board of Water & Light institute a training process for all board members in Carver or other policy governance models and, further, to implement and use the model and continue board training on an ongoing basis, and

**WHEREAS**, the members of the finance committee of the Lansing Board of Water & Light participated in a day long governance training on October 28, 2014, and

**WHEREAS**, the members of the finance committee intends to discuss and determine appropriate financial information and metrics to be submitted periodically to the committee, therefore be it

**RESOLVED**, that the General Manager is hereby directed to provide recommendations regarding future reporting of financial information and metrics to the finance committee at its January 2015 meeting for further discussion and consideration by the committee members.

**Motion** by Commissioner Zerkle, Seconded by Commissioner Mullen, to Direct General Manager Lark to present recommendations directly to the Board of future reporting and financial information.

**Action:** Motion Carried

**Internal Audit Status update**

Internal Auditor Phil Perkins presented a brief overview of:

- FY 2015 Audit Plan Progress Report
- Plan for Remainder of FY 2015

FY 2015 Audit Plan Progress Report

Engagements Completed or in Progress:

1. Surprise Cash Count #1 – completed
2. Time Reporting Review #1 - completed
3. Material Inventory – 85% completed
4. Health & Drug Benefit Programs Audit – 33% completed
5. Engineering (Annual Projects) – fieldwork just underway

Plan for Remainder of FY 2015

Engagements Planned:

1. Operational Audit of BWL Responsive Actions to Selected Recommendations – planned to start late Winter or early Spring of 2015
2. IT – Payment Card Industry Compliance – planned to start in January 2015
3. IT – Management of Non-Desktop Field Devices – planned to start in Spring 2015
4. Surprise Cash Count #2
5. Time Reporting Review #2

Commissioner Louney asked if there might be a need to bring in outside assistance on the audit in the IT field.

Mr. Perkins stated that between himself, possibly assistance from within the organization and working with the IT Department on these two audits that bringing in outside assistance will not be necessary.

Adjourn

On **Motion** by Commissioner Zerkle, seconded by Commissioner Bossenbery, the meeting adjourned at 7:13 p.m.

Respectfully submitted  
Dennis M. Louney  
Chair Finance Committee



# Internal Audit Status Report

Presented by:  
Phil Perkins, Director of Internal Audit  
Finance Committee Meeting  
March 2015

# Overview

- FY 2015 Audit Plan Progress Report
- Independent Audit Results
- Requested Changes



# FY 2015 Audit Plan Progress Report

## Engagements Completed:

1. Surprise Cash Count #1
2. Time Reporting Review #1
3. Materials Inventory Audit

## Engagements in Progress:

1. Health & Drug Benefit Programs Audit (95% complete)
2. Engineering – Annual Projects Audit (75% complete)
3. BOC Independent Audit of Previous Administration (complete, audit report in progress)
4. IT-PCI Compliance Audit (25% complete)
5. Time Reporting Review #2 (50% complete)

# FY 2015 Audit Plan Progress Report, cont'd.

## Engagements Remaining:

1. IT – Management of Non-Desktop Field Devices (Spring 2015)
2. Audit of Outage Management System (OMS) – pending Finance Committee approval
3. Follow-up of Post-Outage Recommendations – recommend deferral of all but OMS-related until FY 2016
4. Surprise Cash Count #2

Bottom line – on schedule and budget to complete plan by end of FY15

# Independent Audit Results

- Areas Reviewed:
  - Major purchases and expenditures approved by previous administration, including sole source and emergency contracts.
  - Handling of CEO Hotline complaints and incidents.
  - Review and approval of previous General Manager's Procurement Card (P-Card) expenses, and appropriate support for business expenses.

# Independent Audit Results, cont'd.

- Issues:

1. More clarity is needed in the Board Policy regarding management reporting of estimated budget variances to the Board.
2. The General Manager's P-Card expenses should be reviewed monthly by the Chair of the Finance Committee or appropriate designee, and all P-card expenses should be adequately supported to evidence the business purpose.

# Requested Changes

1. Add Audit of OMS to FY 2015 Audit Plan.
2. Defer Follow-up on Post-Outage Recommendations Audit (except OMS) until FY 2016.
3. Authorize the hire of an experienced IT auditor for the Internal Audit Department.

**Proposed Resolution**

**AUTHORITY TO SIGN CHECKS**

RESOLVED, That Board of Water and Light Policy 1-01 “Authority to Sign Checks” is hereby amended as follows:

The signatures of not less than two (2) of the following officers shall be required to issue checks from any general checking account held by the BWL.

1. General Manager
2. Chief Financial Officer
3. Corporate Secretary

This resolution supersedes Resolution 2009-12-07.

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*Staff Comments:* Due to organizational and title changes, this resolution is necessary to incorporate the new title of Chief Financial Officer.

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## **Proposed Resolution**

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RESOLVED, that the General Manager and the Chief Financial Officer may further delegate their full or limited investment authority to other specified BWL staff respectfully. The General Manager and Chief Financial Officer shall document the extent of authority delegated as well as the specific BWL staff receiving said authority. Only employees with actual, documented authority may be permitted to execute investment activities.

The Revenue Bond Act of 1933 (PA 94 of 1933, MSA5.2731), as amended, Act 20 of 1943, as amended, and BWL Bond Resolution 89-10-3 govern and restrict the investment of BWL operating funds. Pension funds are governed by the Public Retirement System Investment Act (MCL 38.1132 et seq.), as amended.

This resolution supersedes Resolution 2014-11-4

Staff Comments: Due to organizational and title changes, this resolution is necessary to incorporate the new title and position of Chief Financial Officer.