



FINANCE COMMITTEE MEETING AGENDA

October 20, 2015

**6:00 P.M. – 1201 S. Washington Ave.
Lansing, MI – Reo Town**

BWL Headquarters Depot

Call to Order

Roll Call

Public Comments on Agenda Items

1. Committee Meeting Minutes of 9/08/15.....**TAB 1**
2. August Financial Summary.....**TAB 2**
3. Update on Transition of Pension Investment Consultants.....**(INFO ONLY)**
4. Financial Summary Overview.....**(INFO ONLY)**
5. Outage Management System (OMS) Internal Audit Results.....**TAB 3**

6. Public Comment

Other

Adjourn

FINANCE COMMITTEE

September 8, 2015

The Finance Committee of the Board of Water and Light met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 7:10 p.m. on Tuesday, September 8, 2015.

Finance Committee Chairperson Ken Ross called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, Dennis M. Louney, Tracy Thomas and David Price. Also, present Commissioners Tony Mullen and Non-Voting Member: Bill Long (Delta Township).

Absent: None

The Corporate Secretary declared a quorum.

Public Comments

None

Approval of Minutes

Motion by Commissioner Thomas, Seconded by Commissioner Price, to approve the Finance Committee meeting minutes of July 14, 2015.

Action: Motion Carried

External Audit Communication Presented by Plante & Moran

Heather Shawa-DeCook, Chief Financial Officer (CFO) introduced external auditor Doug Rober, Partner with Plante Moran (P&M) and Marie Stiegel, CPA with P&M, who reviewed and presented the External Auditing Communication.

Mr. Rober said that Plante Moran audited the enterprise fund and the three pension trust funds, which make up the Defined Contribution Plan (DC Plan), Defined Benefit Plan (DB Plan), and the VEBA Benefit Trust. In each of the audits, P&M's opinion of the audits is Unqualified.

Marie Stiegel reviewed Audit PowerPoint Presentation that including the following:

- Operating Revenue – Four Year Comparison
- Operating Expenses – Four Year Comparison
- Operating Income
- Sales of Kilowatt Hours – Five Year Trend
- Kilowatt Hours Generated Versus Produced – Five Year Trend
- Significant Power Cost
- Projected Principal and Interest Payments – Five year Projection
- Revenues, Expense and Net Income by Utility
- Enterprise fund Balance sheet

Ms. Stiegel covered the required communication for those charged with governance, the end-out-audit letter, which outlines best practices, recommendations and upcoming accounting standards and

recommendations. Ms. Stiegel noted that there were no significant changes to the audit plan from what was previously communicated.

Concluding the Auditors report there was a questions and answers session with the auditors responding to a series of questions concerning the audit findings as well as confirmation of complete cooperation exemplified by Board of Water & Light's management.

Motion by Commissioner Price, Seconded by Commissioner Thomas to forward the proposed resolution for the acceptance of the FY 2015 audited financial statements, to the full Board for consideration.

Action: Motion Carried

July Preliminary Financial Highlights

Heather Shawa-DeCook, Chief Financial Officer (CFO) presented preliminary financial numbers to the Board as such: revenue 31.6 million; net income, 5 million; cash at hand, 82.7 million; cash position at 8/28, 87.6 million.

Review of Audit Quarterly Open Issues List

Heather Shawa-DeCook, Chief Financial Officer (CFO) reported the open issues list from BWL's internal audits to the Board.

STATUS OF MANAGEMENT RESPONSES TO AUDIT REPORTS AS OF 7/31/15

Open Issues

- #12 Records Retention Management Audit (March 2014) - Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.
- Status: Regarding I-9 forms, the Human Resources Department is in the process of ensuring that they are on file for all active employees. This project is ongoing with an expected completion date of 12/31/15. During July, 44% of needed I-9 forms were collected. Concerning the appropriate retention schedule for the asbestos bills of lading (a.k.a. asbestos manifests), it will be reviewed and updated as part of the overall review of the Record Retention Schedule. Enterprise Content Management anticipates an updated master document will be sent for executive management review by October 2015. Approval by the State of Michigan is expected in early 2016.
- #13 Records Retention Management Audit (March 2014) - The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.
- Status: Enterprise Content Management is reviewing the existing Record Retention Schedule with the appropriate departments and cataloging all proposed revisions. Enterprise Content Management anticipates an updated master document will be sent for executive management review by October 2015. Approval by the State of Michigan is expected in early 2016.
- #15 Accounts Payable Audit (April 2014) - The audit revealed the existence of more than 14,000 vendor master entries. Within these entries are duplicates and vendors that have been blocked. Further review and analysis was recommended.
- Status: Accounts Payable (AP) is focusing their efforts on confirming information for current payees (including W-9 forms) and working jointly with Purchasing in identifying new vendors to set up as new payees only when warranted. AP is also working jointly with the IT Department in determining which vendor entries should be retained or blocked on SAP due to inactivity.
- #16 Accounts Payable Audit (April 2014) - The Goods Receipt/Invoice Receipt account balance is higher than previous years. Internal Audit recommends that management focus on resolving mismatched items in this account and clear unresolved documents older than a particular age.
- Status: To reduce the recurrence of these types of issues, Accounts Payable (AP) has developed a refresher training course on the system receiving function for presentation to all users and, also, anticipates automated email notification becoming available in FY16. Also, to address the current account balance and clear older items, AP is working with departments to resolve goods and invoice receipts older than 15 months and on reducing the occurrence of invoices 45 days or older. By their nature, the occurrence of these events and the resulting efforts to address them will be ongoing with no specific, final completion date, although it is anticipated that any increase in frequency or amount will be related to normal seasonal activity and not to a lack of oversight and effort to resolve them.
- #17 Close the Books Audit (August 2014) - The Internal Auditor determined that accounting procedures should be updated and stored in a central location, with consideration given to the use of a general accounting manual.
- Status: General Accounting is continuing to work on centralizing and updating all current procedures. Updates to the general accounting manual are approximately 50% complete, however, General Accounting's work efforts on these projects have been delayed due to fiscal year end work demands, along with unanticipated staffing changes. Changes are expected to be complete by 3/31/16.
- #20 Materials Inventory Management Audit (January 2015) - The Internal Auditor found access to two inventory related SAP system transaction types to be excessive.

Status: The removal of unnecessary access has been requested of the IT Department by Purchasing & Warehousing (PW). PW has also taken it upon themselves to develop an additional control, in the form of a periodic report run to monitor a particular situation where duties cannot always be adequately segregated due to limited availability of backup personnel in non-routine instances. In addition, PW, with the assistance from Internal Control, is developing a process to ensure that outdated and inappropriate user access is identified and corrected on an ongoing basis. To date, a draft report has been developed by Internal Control and is being reviewed by PW. Once finalized, this review will be conducted semi-annually.

- #23 Annual Projects Management Audit (July 2015) *NEW* - Internal Audit determined that the project close-out process did not always include a documented narrative explaining why actual costs exceeded estimates.

Status: The project close-out process is being enhanced by consistently providing a narrative explanation when project costs exceed estimates by a threshold of 15% and \$50,000. Implementation by the Customer Projects and Electrical System Integrity areas is complete. The Water Distribution area estimates an implementation date of 10/1/15.

- #24 Annual Projects Management Audit (July 2015) *NEW* - Internal Audit determined that the project close-out process did not always identify use of contingency amounts.

Status: The project close-out process is being enhanced by consistently identifying use of contingency amounts when project costs exceed estimates by a threshold of 15% and \$50,000. Implementation by the Customer Projects and Electrical System Integrity areas is complete. The Water Distribution area estimates an implementation date of 10/1/15.

Closed Issues (since last report of 5/31/15)

- #18 Materials Inventory Management Audit (January 2015) - Internal Audit's physical inventory counts at the main warehouse revealed some differences from book balances.

Status: Purchasing & Warehousing (PW) has, and continues to, emphasize to PW staff and user departments the importance and criticality in completing the proper paperwork and forms. PW has also initiated relationship-building efforts with their user departments, to enhance communications and accountability, and explored and implemented other options to enhance control over inventory. PW continues to count high-dollar, fast moving inventory items more frequently than once a year and will begin to count yard items on a monthly basis. Within the past year, some yard items, such as transformers, have been moved to a secured offsite warehouse. Possible future technology enhancements to further improve the process will be supported with a business justification and subject to the capital project approval process.

- #19 Materials Inventory Management Audit (January 2015) - Internal Audit noted issues at two satellite inventory locations and recommended tighter controls at satellite inventory locations in general, citing the alternative of consolidation of inventories at the central warehouse.

Status: Satellite inventory is no longer being maintained at the REO and Eckert locations. Inventory at the Dye and Erickson plants has been reduced to a few critical items.

- #21 Special BOC Requested Audit (April 2015) - The Internal Auditor found that more clarity is needed in Board policy regarding the reporting of capital budget variances. Specifically, with regard to a clarification from the Board of Commissioners as to when, for a multi-year project in particular, a budget variance exceeding the defined threshold should be reported to and approved by the Board.

Status: Board Policy 15-02 was amended by Board Resolution 2015-07-05, which provides the necessary clarification.

- #22 Special BOC Requested Audit (April 2015) - The Internal Auditor found that the former General Manager's procurement card expenses were not adequately reviewed or supported and that requirements could be clarified.

Status: Board Policy 7-05 was amended by Board Resolution 2015-07-04, which provides the necessary clarification.

There was a lengthy discussion after each reported open issue.

Internal Audit Process/2015-16 Audit Plan Modification

Internal Auditor Phil Perkins, presented an overview of the following information:

- Process Events/Milestones,
 - Preliminary Risk Assessment and Scoping
 - Audit Announcement/Opening Conference
 - Field work Phase
 - Pre-closing Meeting
 - Closing Conference
 - Audit Reporting
 - Audit Follow-up
- FY 2016 Audit Plan – Request for Change Approval

FY2016 Audit Plan- Request for Change Approval

Planned Audits:	Estimated Hours
Follow-up of Selected CRT/MPSC/BWL Recs.	300
Billing	500
IT – Information Security Policies	300
Training & Development	300
Safety Management Hiring Process	400
IT – Manage Changes	400
Other Engagements:	
Surprise Cash Counts (2)	40
Time Reporting Reviews (2)	160
Central Maintenance & Fleet Time/Resource Reporting	100
Other Consulting (NERC/CIP Compliance, IRP/Strat Plan)	100
Total Estimated Hours	<u>2,600</u>

Motion by Commissioner Price, Seconded by Commissioner Louney to accept the change to the Internal Auditor’s FY 2016 Audit Plan to include the Hiring Process.

Action: Motion Carried

Public Comment

None

Other

Commissioner Louney congratulated Commissioner Ross on doing a good job as the new Finance Chair.

Adjourn

On Motion by Commissioner Price, Seconded by Louney, the meeting adjourned at 8:53 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

**FINANCIAL SUMMARY FOR
August-15**



Cash Balance

	Month End Balance	Target	Difference	%
O&M Fund	\$ 90,807,255	\$ 80,987,574	\$ 9,819,681	11%
Days Cash on Hand	172	150-249		
Credit Rating	AA-	AA-		
Debt Service Coverage - Rating Agencies	1.64	2.00-2.49		
Debt Service Coverage - Bond Covenants	2.23	1.25		

Total Cash	\$ 212,044,817 =	\$ 90,807,255	+	\$ 91,638,127	+	\$ 29,599,435
		O&M Fund		Designated Funds		Restricted Funds

Budget Status O&M - YTD

	Actual YTD	YTD Budget	Difference	%
Excluding Fuel	\$ 18,523,297	\$ 23,433,951	\$ (4,910,654)	-21%

Financial Statements YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	(%) +/-
Revenue	\$ 65,680,856	\$ 68,974,688	\$ (3,293,832)	-5%	\$ 60,639,000	\$ 5,041,856	8.3%
Retail	\$ 59,665,545	\$ 59,622,390	\$ 43,155	0%	\$ 53,091,192	\$ 6,574,353	12.4%
Wholesale	\$ 6,015,311	\$ 9,352,299	\$ (3,336,988)	-36%	\$ 7,547,808	\$ (1,532,497)	-20.3%
Oper Expense	\$ 48,959,530	\$ 56,566,120	\$ (7,606,590)	-13%	\$ 48,692,493	\$ 267,037	0.5%
Non Oper	\$ (5,520,766)	\$ (6,418,402)	\$ 897,636	-14%	\$ (5,949,680)	\$ 428,914	-7.2%
Net Income	\$ 11,200,560	\$ 5,990,166	\$ 5,210,394	87%	\$ 5,996,827	\$ 5,203,733	86.8%
FY 2016 Projected Net Income	\$ 2,260,667						

	Actual YTD	YTD Budget	Target
Adjusted Net Income Return	1.88%	1.17%	6.18%

Ratios

Operating Ratio	O&M Expenses / Revenue	Measures efficiency	APPA Median
	\$ 42,170,313 / \$ 65,680,856	0.64	0.72

Current Ratio	Current Assets / Current Liabilities	Measures Liquidity	APPA Median
	\$ 200,179,938 / \$ 51,388,366	3.90	1.80

Debt to Total Assets	LT Debt + Accrued Liabilities / Total Assets	Measures Leverage	APPA Median
	\$ 415,581,189 / \$ 1,017,926,663	0.41	0.58

Revenue per KWh	KWH	Electric Revenue	Revenue/KWH	Last YTD
Retail				
Residential	106,398,177	\$ 15,555,811	0.146	0.130
Commercial	212,441,478	\$ 26,668,373	0.126	0.112
Industrial	65,218,228	\$ 6,980,891	0.107	0.096
Wholesale	140,710,463	\$ 5,344,815	0.038	0.039
Other	4,431,600	\$ 1,936,598	N/A	N/A

Receivable Turnover	Sales / Accts Receivable Balance	Turnover	Last YTD
	\$ 65,680,856 / \$ 25,268,556	15.47	14.49

Bad Debt	Actual YTD	YTD Budget	Over/(under)	% of Revenue Total	Last YTD
	\$ 373,273.60	\$ 285,053.86	\$ 88,219.74	0.57%	0.39%

Employee Data

Employee Count	Actual YTD	YTD Budget	Over/(under)	Prior YTD	Difference
	723	753	(30)	702	21
	Bargaining = 465	64%			
	Non Bargaining = 258	36%			

Payroll Data	Actual YTD	YTD Budget	Difference	Actual Prior YTD	Difference	(%) +/-
Total Labor	\$ 9,460,310	\$ 9,366,652	\$ 93,658	\$ 8,804,597	\$ 655,713	7.4%
Regular	\$ 8,288,150	\$ 8,413,193	\$ (125,043)	\$ 7,817,877	\$ 470,273	6.0%
Overtime	\$ 1,172,160	\$ 953,459	\$ 218,701	\$ 986,720	\$ 185,440	18.8%
Total Hours Worked	204,114			205,000		
Labor Expense/Hours Worked	\$ 46.35			\$ 42.95		
APPA Median	\$ 41.57					

Benefits Cost

	Actual YTD	YTD Budget	Difference
Health	\$ 1,563,329	\$2,629,221	\$ (1,065,892)
RX	\$ 478,690	\$574,224	\$ (95,534)
Dental	\$ 99,794	\$185,656	\$ (85,862)
Life	\$ 19,364	\$53,939	\$ (34,575)
FICA	\$ 707,857	\$339,568	\$ 368,289
Other	\$ 339,788	\$612,641	\$ (272,853)
	\$ 3,208,822	\$ 4,395,249	\$ (1,186,427)

Debt Service Coverage - Rating Agencies - (Projected Net Income + Depreciation Expense + Interest Expense + Fixed Obligations) / (Debt Service+ Fixed Obligations)
(Fixed obligations represent Belle River Debt Service)

Debt Service Coverage - Bond Covenants - (Projected Net Income + Depreciation Expense + Interest Expense) / (Debt Service)

Operating Ratio - Measures the proportion of revenues to cover the operation and maintenance costs

Current Ratio - Measures whether current assets are sufficient to pay current liabilities within one year.

Debt to Total Assets Ratio - Measures the ability to meet its current and long-term liabilities based on the availability of assets.

* APPA Median Source is the APPA Selected Financial and Operating Ratios of Public Power Systems, 2013 Data. Specifically Utilities with over 100,000 Customer Class Size
This publication is always 2 years behind. Our calculations are based on all four BWL utilities and the APPA median scores are related to electric only utility numbers.

The Days Cash on Hand and Debt Service Coverage - Rating Agencies target ranges are sourced to a Baker Tilly release of the performance expected by Moody's for a AA- electric utility with generation.



OMS Audit Results

Presented By: Phil Perkins, Director
of Internal Audit

October 2015 Finance Committee



Background

- Audit scope and objectives were based on Community Review Team (CRT) recommendations relating to the Outage Management System (OMS).
- CRT recommendations made in April 2014 were accepted by BWL management.
- BWL internal audit of the OMS was approved by the Board of Commissioners' Finance Committee in March 2015.
- Internal audit work began in April 2015 and concluded in August 2015. Final audit report was issued on October 2, 2015.

CRT Recommendations on OMS

- CRT Recommendation #29: Integrate the OMS into an Emergency Operations Plan (EOP) which is tested to its maximum capacity, both to assure system functionality and to assure integration with restoration operations, on a semi-annual (6 months) basis. Staff noted that because they had not experienced an outage of more than 20,000 customers, they assumed that was the maximum ever likely. As noted above, recent reports indicate that storm frequency and intensity are on the rise. Since the outage, the now apparently functional OMS has been tested for loss of power to 35,000 households-still fewer than lost power in the December outage. Therefore, the system must be tested to its maximum capability.
- Internal Audit focus was on the adequacy of post-outage system stress testing. We did, however, verify that OMS was integrated into the EOP.

CRT Recommendations on OMS, cont'd

- CRT Recommendation #30: Remedy the lack of redundancy in the OMS by (1) devising an alternative system and (2) including the potential loss of OMS as a contingency in the Emergency Operations Plan. The OMS failed during the December outage and had no backup system.
- Internal Audit focus was on the inclusion of the potential loss of OMS as a contingency in the EOP; the backup or alternative system included in the EOP; and the concern about potential lack of system redundancy.

CRT Recommendations on OMS, cont'd

- CRT Recommendation #31: The IT Department shall report OMS implementation and maintenance and redundant system development to the Board of Commissioners at least monthly. Further, the Commissioners should carefully review the history of the selection, installation, and performance of the GE OMS system to determine if further action is required.
- Internal Audit focus was on the history of the selection, installation and performance of the GE OMS to determine if further action was required. We obtained evidence that regular reporting of OMS status to the Board was occurring.

Audit Objectives

- Determine whether:
 1. Any further action was required regarding practices used in pre-operational vendor selection and testing leading up to full system operation. (CRT Rec #31)
 2. System capacity stress testing was sufficient, based on objective criteria, to demonstrate the system's ability to perform successfully during a significant outage scenario such as the December 2013 ice storm outage. (CRT Rec #29)
 3. Any further action was required regarding system maintenance and redundant system backup. (CRT Rec #30)

Audit Results

- Pre-operational vendor selection and testing –issues:
 1. Lack of adequate technical review prior to contract award.
According to BWL Purchasing Procedures:
 - Bidders should be scored in a number of different categories to identify the best value proposal.
 - Price is important but will not be the sole basis for a decision.
 2. Contractor’s inadequate handling of testing variances before and after go-live.
 - Important reporting and functional test failures were not resolved before go-live date.
 - System stress testing prior to go-live was not performed.
 - Conductor cuts functional problem was identified after go-live but not fixed prior to Dec 2013 ice storm outage.

Audit Results, cont'd.

- Issue - System capacity stress testing was performed but needs to be refined.
 - Analyzing prior data and benchmarking to identify a tolerable stress limit.
 - Call system vendor should independently test its call limit threshold.
 - Extending the test period to demonstrate reliability over a longer time.
- System maintenance and redundant system backup:
 - No specific issues. GE Outage Management System (OMS) is operating satisfactorily although system redundancy is lacking (this is addressed elsewhere).
 - Request For Proposal for new Advanced Distribution Management System (ADMS) calls for system redundancy. ADMS will replace the current OMS.

Management Responses

- Management agreed with all findings and recommendations. Corrective actions include:
 1. A full review of BWL Purchasing Policy that includes a documented technical review requirement for formal bid evaluations and weighting of factors provided to key decision-makers. (by 12/31/15)
 2. Ensuring that project managers perform adequate pre-operational testing including system stress testing where needed.
 3. Consulting with an industry expert to create a stress testing template to be used for future OMS stress tests, as well as reviewing capacity reports from vendors showing peaks, average and raw capacity over the past year. (by 12/31/15)