



**LANSING BOARD OF WATER AND LIGHT BOARD OF COMMISSIONERS
 FINANCE COMMITTEE MEETING
 AGENDA – January 11, 2022
 6:00 P.M. – 1201 S. Washington Ave., Lansing, MI 48910
 Board of Water & Light Headquarters – REO Town Depot**

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

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of November 9, 2021 **TAB 1**
- 2. November YTD Financial Summary..... **TAB 2**
- 3. Bi-annual Internal Audit Open Management Response **TAB 3**
- 4. Retirement Plan Committee (RPC) Updates **TAB 4**
- 5. Internal Auditor Status Report presented by Principal Auditor **TAB 5**

Other

Adjourn

Based on recommendations from the Centers for Disease Control the Lansing Board of Water and Light request that all meeting attendees wear a face covering.

FINANCE COMMITTEE Meeting Minutes November 9, 2021

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 9, 2021.

Finance Committee Chair Tony Mullen called the meeting to order at 6:29 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Tony Mullen, Semone James, David Price and Sandra Zerkle. Also, present: Commissioners Dusty Horwitt, DeShon Leek, and Non-Voting Commissioners Douglas Jester (East Lansing), Larry Merrill (Delta Township) and Brian Ross (DeWitt Township).

Absent: Commissioner Beth Graham

The Corporate Secretary declared a quorum.

Public Comments

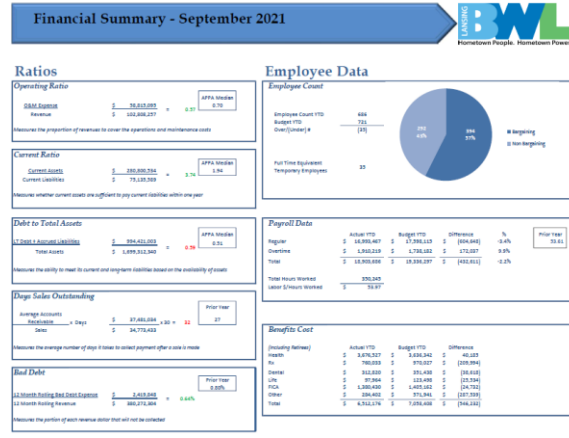
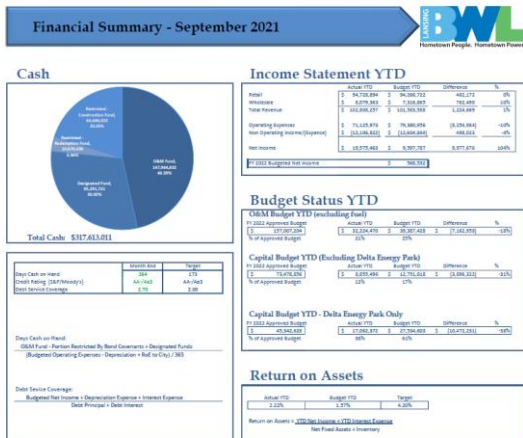
None.

Approval of Minutes

Motion by Commissioner Zerkle, **Seconded** by Commissioner James, to approve the Finance Committee meeting minutes of September 14, 2021.

Action: Motion Carried.

September YTD Financial Summary



* All APFA Member Numbers are for Utilities With Greater Than 100,000 Customers as Obtained From The Most Recent APFA Practice and Operating Rates Of Public Power Utilities Report. Published In 2020.

CFO Heather Shawa and Finance Manager, Scott Taylor gave a review of the September 2021 Year-to-date Financial Summary. Mr. Taylor reported the following: Total Cash is at \$317 million. The Days Cash on Hand and Debt Service Coverage are the most critical metrics and both are in a strong position. After the completion of bringing Delta Energy Park on line and working through the COVID-19 environment, a portion of our current cash balances can be used for additional investment in infrastructure. Operating Expenses are lower than budgeted partly due to COVID and partly due to it being the first quarter when we have just closed out prior year initiatives and are just in the beginning phases of the new year's initiatives.

Commissioner Mullen asked if there was a separation of fuel from the O&M Budget because it was volatile. Mr. Taylor responded that there was a separate cost recovery component for the variances in fuel.

Mr. Taylor also reported on the Ratios and noted that the Debt to Total Assets is in the red but it is typical for utilities who generate their own power like the BWL to have a higher ratio because of the additional cost of constructing their own generation facilities rather than buying their power from the market. Days Sales Outstanding is in the red but BWL is working with the customers.

Commissioner Jester asked how close the mix of electricity sales by class were to being back to normal. Mr. Taylor responded that industrial sales underperformed primarily due to General Motors not operating at full capacity while residential and commercial sales outperformed and offset the shortfall. Commissioner Jester also asked what the status was for customer disconnections. CFO Shawa responded that past due customer accounts were reduced by about \$3 million and 16,000 customer accounts were included in the shut off pool.

September Capital Report

CFO Heather Shawa gave the September Capital Report. The report contains the top ten projects, excluding the Delta Energy Project. The ESRI Implementation project is part of the BSmart program and is on the watchlist as it is approaching exceedance.

Commissioner Mullen asked for clarification regarding the phases with regard to planned costs and exceedances. CFO Shawa responded that the budget for the project is not considered firm until after the project is scoped and designed. If an expected total project cost increase exceeds the reporting threshold after that point, the project is brought to the Board for exceedance acceptance. GM Peffley added that an accurate cost is achieved with the scope and design, and management is held responsible to be within 15% or \$200,000 of the designed cost. Commissioner Mullen commented that authorization was given for this process.

Commissioner Zerkle asked whether approval had been given for this project exceedance process. CFO Shawa responded that there is an updated resolution that supports this process. CFO Shawa added that when the capital budget is presented, the phases of the projects are provided. GM Peffley commented that graphs indicating in which phase or gate the projects are is provided for the Commissioner prior to presenting for acceptance.

Commissioner James asked whether a report of the capital project projections could be provided which states any vendor costs, the proximity to the projected budget, and any exceedances. GM Peffley and CFO Shawa responded that they could provide Commissioner James a report.

Retirement Plan Committee (RPC) Update

Chair Mullen commented that authority had been delegated to the Retirement Plan Committee to make any needed changes to administrative items and compliance actions in the retirement plans. CFO Shawa provided the Retirement Plan Committee (RPC) update and stated the plan overview of the Pension program would be sent to the full Board prior to the Trustee meeting. The funding status of the VEBA plan has doubled over the last 10 years and the VEBA plan administrative services agreement has now been drafted and includes a change in strategy from a building up funding strategy to a maintaining funding strategy. The agreement includes formally establishing the BWL's administrative role with respect to processing fees and expenses, and the placing of parameters to review and calculate quarterly funding of the cost of plan benefits from the trust.

Commissioner Zerkle asked whether the Board needed to approve any of the actions taken and what was the amount of money spent on employee benefits each year. CFO Shawa responded that a quarterly report will be provided going forward that shows claims paid and that \$15 to \$16 million is spent each year for current employees and retirees. Commissioner Zerkle asked about reimbursements that would be given to retirees. CFO Shawa responded that reimbursements would only be made to the BWL operating account for the eligible expenses being paid out. Commissioner Mullen commented that the amount in the retirement fund can only be used for retirees' benefits but extra money to be given to the retirees can be authorized by the Board from a separate fund other than the Pension fund, such as the operating fund. A discussion was requested to be held in the January Finance Committee meeting regarding retiree benefits.

Internal Auditor Status Report

Principal Auditor Brian Schimke presented the Internal Auditor Status Report.

FY 2021 Audit Progress Report

Audit Engagements and Activities in Audit Plan Completed, Currently Underway, Scheduled to Start, or Changed

1. Unbilled Accounts Receivable – Audit Status: Completed, Audit Report Issued 3/17/2021
2. Purchase Card Usage and Control – Audit Status: Completed, Audit Report Issued 3/30/2021
3. MPPA and MISO Billings – Audit Status: Completed, Audit Report Issued 6/10/2021
4. Cybersecurity, IT Vulnerabilities & Penetration Testing – Audit Status: Completed, Audit Report Issued 09/10/2021



IA Status Report 11/09/2021

3

FY 2022 Audit Progress Report

Audit Engagements and Activities in Audit Plan Completed, Currently Underway, Scheduled to Start, or Changed

1. Payroll Audit – Audit Status: Has Not Officially Commenced, Engaged in Preliminary Work Which Began on 08/23/2021



IA Status Report 11/09/2021

6

FY 2021 Audit Plan Recently Closed Audit Summary

- FY21-05 Cybersecurity, IT Vulnerabilities & Penetration Testing Audit
 - BDO was the vendor hired to conduct the audit, perform the penetration testing, and kicked off the Audit in April 2021.
 - BDO performed a Cyber Maturity Assessment and a Penetration Test of our Networks.
 - The BWL ranked above average in both facets of the audit and better than our industry peers in almost all categories.
 - Final Report was issued to the Commissioners back on September 10th, 2021.
 - BDO was very complimentary of the BWL's performance.
 - IA would like to publicly thank everyone who participated and contributed to the success of the audit.



IA Status Report 11/09/2021

4

Other Items Internal Audit's Addressing

- FY22 IIA Required Peer Review
 - Required to be completed every five years to maintain compliance with IIA standards. The last Peer Review was completed in FY2017.
- Improving/Evolving IA's Relations with Management
 - Implementing strategies to improve efficacy, enhance communication, refine engagement, and foster synergies with Management.
- Ensuring a Smooth Transition to New Director of Internal Audit
 - Verifying all workpapers were saved accordingly in our database, reviewing IA's current processes and preparing recommendations for new Director, and ensuring the day-to-day operations of IA are being performed.



IA Status Report 11/09/2021

7

Tentative FY 2022 Audit Plan

**Please note: The FY22 Audit Plan has NOT been approved and may not be until a new Director of Internal Audit has been named. However, IA was given permission to engage in preliminary work only, for the FY22 Payroll Audit.*

1. Time Recording, Payroll Processing, and Payment of Overtime – Payroll (First Time Audit)
2. Employee Master File (To Be Included in #1 Above) – Human Resources, Last Audit: October 2017
3. Manage Mobile Devices – Information Technology, Last Audit: October 2017
4. Outage Management System (Current Process) – Operations (First Time Audit)
5. Enterprise Information Management (Records Retention Management) – Legal/Management/Board Processes, Last Audit: March 2014
6. Capital Projects Management – BWL Other (First Time Audit)



IA Status Report 11/09/2021

5

Commissioner Zerkle commented that she didn't receive the report from September 10th and only received an email stating the information in the cybersecurity audit wouldn't be disclosed publicly. Mr. Schimke stated that the information in the audit report would need to be discussed in a closed session due to the sensitivity of the information. Commissioner James asked whether a final report was sent to the Commissioners. Commissioner Mullen and Mr. Schimke responded that an executive summary of the audit report was provided which provided BDO's findings from the two phases of the audit and which was intended to serve as the final report for this audit. Mr. Schimke responded that Internal Audit and BDO reviewed the FY21-05 cybersecurity audit with CFO Heather Shawa, CIO Rod Davenport and Internal Controls, and Finance Manager, Scott Taylor. IT agreed to remediations proposed by management.

Commissioner Zerkle asked if there were a couple of the audits that Mr. Schimke could start or complete before the Internal Auditor position was filled. Mr. Schimke responded that the audit plan had not been approved yet but three or four could be completed. Mr. Schimke stated that he was given approval for preliminary work on the Payroll audit. He added that the new Internal Auditor may create a different audit plan. Commissioner Zerkle asked if further authority should be given to Mr. Schimke. Commissioner James commented that it would be up to the Board to determine what would be in the audit plan.

A discussion followed on giving Mr. Schimke further authority to work on additional proposed audit plans.

Motion by Commissioner Mullen, **Seconded** by Commissioner Zerkle, to appoint Principal Auditor Brian Schimke as Interim Internal Auditor and give him authority to work on the internal audit plan as Interim Internal Auditor until a Director of Internal Audit is appointed.

Action: Motion Carried

Commissioner Mullen requested that Mr. Schimke continue with the Payroll audit and come up with three more audits that need to be completed and present them at the January Finance Committee meeting if he is appointed as the Interim Internal Auditor at the Board meeting.

Commissioner Zerkle asked if the risk assessment could be presented at the January Finance Committee meeting. Mr. Schimke responded that he would bring suggestions but would like to speak with management regarding resources required to commit to the audits.

Commissioner James asked about the five-year peer review that needs to be completed by the end of the fiscal year. Mr. Schimke responded that it did need to be completed by June 30, 2022 as the last one was done in 2017 and he has received instructions from previous Internal Auditor Phil Perkins.

Mr. Schimke stated that he would like to discuss with management whether they have the resources to commit to the audits in the plan. Mr. Schimke added that he would like to include two or three alternate audits along with the six or seven audits determined from the risk assessment.

Commissioner James asked if Mr. Schimke would only be working on the payroll audit and the peer review. Mr. Schimke responded he would be working on those two items and additional items.

Other

There was no other business.

Adjourn

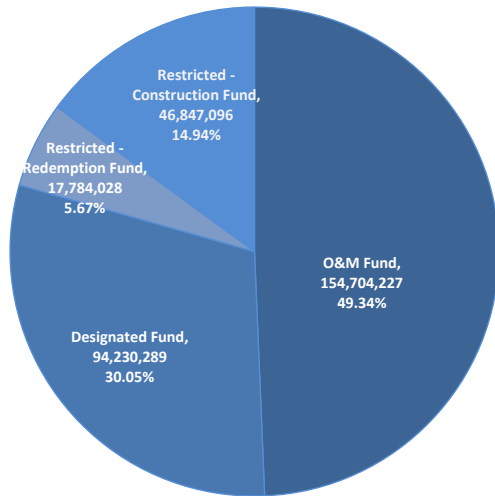
Chair Tony Mullen adjourned the meeting at 8:07 p.m.

Respectfully submitted
Tony Mullen, Chair
Finance Committee

Financial Summary - November 2021



Cash



Total Cash: \$313,565,639

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 157,465,899	\$ 148,252,059	9,213,841	6%
Wholesale	\$ 12,048,030	\$ 13,626,099	(1,578,069)	-12%
Total Revenue	\$ 169,513,929	\$ 161,878,157	7,635,772	5%
Operating Expenses	\$ 119,661,401	\$ 130,690,260	(11,028,859)	-8%
Non Operating Income/(Expense)	\$ (22,333,869)	\$ (21,016,143)	(1,317,726)	6%
Net Income	\$ 27,518,660	\$ 10,171,755	17,346,905	171%

FY 2022 Budgeted Net Income \$ 568,532

Budget Status YTD

O&M Budget YTD (excluding fuel)

FY 2022 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 157,007,204	\$ 54,372,452	\$ 63,725,576	\$ (9,353,124)	-15%
% of Approved Budget	35%	41%		

Capital Budget YTD (Excluding Delta Energy Park)

FY 2022 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 73,478,856	\$ 15,086,738	\$ 24,058,599	\$ (8,971,861)	-37%
% of Approved Budget	21%	33%		

Capital Budget YTD - Delta Energy Park Only

FY 2022 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 45,342,628	\$ 27,470,499	\$ 45,342,628	\$ (17,872,129)	-39%
% of Approved Budget	61%	100%		

	Month End	Target
Days Cash on Hand	271	173
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	2.49	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:

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

Return on Assets

Actual YTD	Budget YTD	Target
3.40%	2.01%	4.20%

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

Financial Summary - November 2021



Ratios

Operating Ratio

$$\frac{\text{O\&M Expense } \$ 99,143,241}{\text{Revenue } \$ 169,513,929} = 0.58$$

APPA Median
0.70

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

Current Ratio

$$\frac{\text{Current Assets } \$ 297,034,263}{\text{Current Liabilities } \$ 82,736,151} = 3.59$$

APPA Median
1.94

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

Debt to Total Assets

$$\frac{\text{LT Debt + Accrued Liabilities } \$ 1,000,803,825}{\text{Total Assets } \$ 1,713,638,359} = 0.58$$

APPA Median
0.51

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

Days Sales Outstanding

$$\frac{\text{Average Accounts Receivable } \$ 35,692,790}{\text{Sales } \$ 31,911,683} \times 30 = 34$$

Prior Year
25

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

Bad Debt

$$\frac{\text{12 Month Rolling Bad Debt Expense } \$ 2,534,882}{\text{12 Month Rolling Revenue } \$ 388,429,839} = 0.65\%$$

Prior Year
0.86%

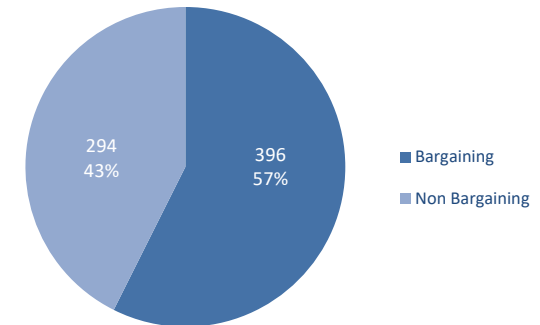
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	690
Budget YTD	723
Over/(Under) #	(33)

Full Time Equivalent
Temporary Employees 39



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 26,645,546	\$ 27,595,386	\$ (949,840)	-3.4%	52.67
Overtime	\$ 3,015,752	\$ 2,731,429	\$ 284,323	10.4%	
Total	\$ 29,661,298	\$ 30,326,815	\$ (665,517)	-2.2%	
Total Hours Worked	550,720				
Labor \$/Hours Worked	\$ 53.86				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 7,325,644	\$ 5,537,270	\$ 1,788,374
Rx	\$ 1,227,011	\$ 1,799,262	\$ (572,251)
Dental	\$ 516,352	\$ 585,730	\$ (69,378)
Life	\$ 167,409	\$ 205,830	\$ (38,421)
FICA	\$ 2,135,805	\$ 2,194,620	\$ (58,815)
Other	\$ 542,747	\$ 891,923	\$ (349,176)
Total	\$ 11,914,968	\$ 11,214,635	\$ 700,333

Follow-up to Internal Audit Findings & Recommendations

Finance Committee 1/11/2022



Resolution #2018-07-05

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

Internal Audit

- Perform audits, report findings, provide recommendations, record management's response, verify completion of corrective actions

Management

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

Follow-up of Open Management Responses to Audit Findings

- An open action items list is maintained for progress tracking
- Management reports progress to the Finance Committee semi-annually (Jan & July)

Open Actions

▶ P-Card

- ▶ **Mandatory Training for P-Card Holders - *ECD 2/28/2022**
 - Training for P-Card holders on the revised P-Card Manual and processes.

*ECD- Estimated Completion Date

Open Actions

Cyber Security

Category	Completion %
External Pen Test	100%
Cloud Pen Test	100%
Internal Pen Test	100%
Cyber Maturity*	67%

*Cyber Maturity- 4 out of a total of 6 items have been completed.

Closed Actions

▶ P-Card

- ▶ **Revise and Update P-Card Manual and Program - ECD 12/31/2021, *ACD 12/17/2021**
 - The manual is updated to reflect changes in reconciliation and approval process as well as provide guidelines for instances of lost or stolen cards, suspected fraud, changing technology, penalties for violations, sales tax, etc.
 - Worked with merchant to identify and set categories for prohibited/unauthorized purchases.
 - Verified that revised P-Card manual aligns with other BWL policies and procedures. For example, the BWL Employee Travel and Reimbursement form and the BWL Procurement Policy.
 - Established reconciliations, sign off reviews, and record retention to occur electronically through the merchant portal.

*ACD- Actual Completion Date

Closed Actions

▶ P-Card (Continued)

▶ Revise and Update P-Card Manual and Program - ECD 12/31/2021, ACD 12/21/2021

- **Developed procedures and processes for the following items:**
 - Periodic review of user access and approval limits within merchant portal.
 - Periodic review of split charges to identify attempts to circumvent P-Card program transaction limits.
 - Periodic audits of reconciliations of each cardholder's transaction file and monthly reports to help ensure compliance with the P-Card manual.
 - Annual Review of P-Card usage to determine if P-Card user status is necessary.

Closed Actions

▶ MPPA/MISO Billings

- ▶ **Implement formal and written procedures that pertain to the review and approval of MPPA and MISO invoices - ECD 8/31/2021, ACD 8/18/2021**
 - Developed a written process and procedure for review and approval for MPPA and MISO invoices.
- ▶ **Implement a formal user access security review process, including written policies and procedures for the OATI System - ECD 7/31/2021, ACD 7/1/2021**
 - Developed a formal user access security review procedure for a designee reviewer to verify user access is proper for the OATI software system. This review will be completed no less than every six months.

Thank you!



RETIREMENT PLAN COMMITTEE

Investment Activity Updates for Finance Committee: 1/11/2022

Investment Activity Update

- DB & VEBA
 - Quarterly meeting held with our advisor, ACG
 - Quarterly Pension Report (QPR) emailed to Board 12/17/2021
- Defined Contribution & Deferred Compensation Plans
 - Quarterly meeting held with CapTrust and Nationwide
 - Final Transition of Assets from MissionSquare (ICMA-RC) to Nationwide on December 21, 2021.
 - This completed the BWL's full transition to Nationwide.
 - Quarterly Pension Report (QPR) emailed to Board 12/17/2021



RETIREMENT PLAN COMMITTEE

Administrative Activity Updates for Finance Committee: 1/11/2022

Administrative Activity Update

- DB
 - Opening new account at Bank of America to handle disbursement of pension payments.
 - This will improve our pension payment processes and recordkeeping, while reducing compliance risk.
- VEBA
 - Administrative Services Agreement (ASA) effective January 1, 2022.
 - A section will be added to the 3/31/2022 Quarterly Pension Report (QPR) showing benefits paid on behalf of Trust and if applicable amount reimbursed from the Trust to BWL operating account.
 - Approval of Plan Document Amendment to align with Centers for Medicare and Medicaid Services (CMS) standards and to clarify coverage eligibility.
- Defined Contribution & Deferred Compensation Plans
 - Voluntary Correction Program (VCP) response submitted to IRS examiner from the October 29th request. We have one remaining item awaiting acceptance of the correction made.
 - Miners Act and SECURE Act Optional Provisions:
 - Reducing in-service distribution age from 70 ½ to 59 ½ for 457(b) participants.
 - Allowing participants to withdraw up to \$5,000 following birth or adoption without a 10% early withdrawal penalty.



Internal Audit Status Report Finance Committee Meeting January 11th, 2022

Provided by:
Brian W. Schimke, Principal Auditor

Overview

- 1. Proposed (Revised) FY22 Audit Plan**
- 2. Proposed (Revised) FY22 Audit Plan - Progress Report**
- 3. Other Notable Items**

Proposed (Revised) FY 2022 Audit Plan

1. Planned Audits

- Time Recording, Payroll Processing, Payment of Overtime and Review Access to Employee Master File (Human Resources: Last Audit - October 2017)
- Manage Mobile Devices (Information Technology: Last Audit - October 2017)

2. Alternate Audits

- Enterprise Information Management/Records Retention Management (Legal: Last Audit - March 2014)
- Outage Management System (Operations: Last Audit - April 2015 [Prior OMS System])

**Please note – Alternate audits may only be implemented if there is ample time left in the fiscal year to commence or if circumstances prevent IA from commencing a planned audit.*

Proposed (Revised) FY 2022 Audit Progress Report

Audit Engagements and Activities in Audit Plan Completed, Active, Scheduled to Start, or Changed.

- 1. Payroll Audit – Audit Status: Active, commenced preliminary work back on 08/23/2021**
- 2. Mobile Devices Audit – Audit Status: Scheduled to start after receiving approval of the proposed (revised) FY22 Audit Plan**

**Please note: A FY22 Audit Plan has NOT been approved, however, IA was given permission to engage in audit work related to the FY22 Payroll Audit.*

Other Items Internal Audit's Addressing

1. FY22 IIA Required Peer Review

- Required to be completed every five years to maintain compliance with IIA standards. The last Peer Review was completed in FY2017
- Working with Purchasing to issue RFP to solicit a vendor to perform the Peer Review

2. Working on completing FY22 Goals

- Established to improve the efficiency and efficacy of Internal Audit

3. Composing an Audit Universe for Board of Commissioners

- Will provide the Commissioner's with a comprehensive list of previous audits and breadth of the universe

Any questions, comments, or concerns?

Thank you kindly, for your time.