

AGENDA

FINANCE COMMITTEE MEETING

September 9, 2014

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 7/8/14
2. Presentation of Audited Financial Statements

Adjourn

FINANCE COMMITTEE

July 8, 2014

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 8:23 p.m. on Tuesday, July 8, 2014.

Finance Committee Chairperson Margaret Bossenbery called the meeting to order and asked the Corporate Secretary to call the roll. The following members were present: Commissioners Margaret Bossenbery, Tony Mullen, Dennis M. Louney; Also present Commissioners David Price, Tracy Thomas, Cynthia Ward and Sandra Zerkle.

Absent: None

Public Comments

Chuck Slammer, Lansing, MI, spoke in opposition of the proposed rate increase.

Approval of Minutes

Motion by Commissioner Price, seconded by Commissioner Louney to approve the Finance Committee meeting minutes of May 21, 2014.

Action: Carried Unanimously

Finance Chair changed the order of the Agenda.

External Audit Communication to the Board – Presented by Plante & Moran

General Manager Lark introduced external auditor Doug Rober, Partner with Plante Moran (P&M) and Marie Stiegel, Manager with P&M, who reviewed and presented the Auditing Process.

Mr. Rober said this is the beginning of the audit process and part of that process is to meet and present governance with an overall analysis of the audit plan. This also provides an opportunity for the Commissioners to provide any insight on whether there is anything specific that they are aware of or would like us to focus our time on in addition to what is planned in the audit.

Mr. Rober stated that the scope of the Audit that will be performed is to express an opinion of the financial statements of the Board as well as each of the pension plans. He stated there will also be a management letter or significant deficiency letter if required at the end of the engagement, ultimately issuing an AU260 communication letter. He said their focus is to perform procedures on the financial information that is the responsibility of the management and the Board. He stated they will be getting together with the Board again to discuss the results. One of the required communications is a letter summarizing how the audit went and what the findings are, and that is in addition to the report letter pertaining to the financial statements. If there were financial matters found, that warranted the Board's attention that would also be communicated in a letter.

Ms. Stiegel reviewed Management's responsibility in the Audit process as well as the following:

- Audit Process
- Auditor Responsibility
- Management Responsibility
- Testing Phases
- Required Discussion Points
- Significant Risk Misstatement
- Responses to Significant Risk Misstatement
- Additional Required Discussion Points
- Communication to those Charged with Governance

Commissioner Price questioned the status of the pension plans with all that is going on in the economy, and wanted some reassurance that the Board of Water & Light is in good shape. In response Ms. Stiegel stated through GASB 67, you will have some disclosures that provide a measurement of that.

Commissioner Louney questioned if Plante Moran did operational audit for utilities. In response Mr. Rober stated that they do have experience in that area. He stated when performing an operational audit, they listen to the scope of what an organization wants them to focus on, and then a specific audit is designed against those particulars.

Mr. Rober asked the Board of Commissioners if there were any areas of concern that warrant attention or additional procedures.

In response to Mr. Rober’s question the Board of Commissioners stated no areas of concern.

Request to Publish Notice Re: Proposed Rate Changes

General Manager Lark said what is before you is a resolution a Resolution requesting approval to set a Public Hearing date of September 18, 2014 on the rate recommendations. A notice would be published in the newspaper by August 27th. There would be a Committee of the Whole of meeting on September 9, 2014, in which we would give you embellished upon, as well as refined documents regarding the rate changes, so that you can have a good idea of what we are going to put forward at the Public Hearing. The Board would meet on September 23, 2014 to decide on whether or not to invoke the rate increase.

General Manager Lark reviewed the Impact of Proposed Rates Increases. He said that the proposed rate increases are Electric 7%, Water 9%, Steam 9% and Chilled Water 3%. What this increase would do is bring us a net income of approximately \$8M. If we are to have a return on assets on 6.18% as the Board instructed back in 2008, that net income would be \$33M. So you can see the return on assets with these increases for a full year would amount to 1.12% return on assets. The return on assets is an important figure, the money that we use to keep our plants up, refurbish, and take of the depreciation that we have at the Board of Water & Light. Without the increases, the net income becomes (\$11M).

General Manager Lark reviewed the following:

Effect of All Proposed Rate Changes on a Typical Monthly Residential Electric Bill Using 550 kWh of Electricity Per Month

ELECTRIC:		6/1/2014	11/1/2014
Service Charge (per month)		\$8.10	\$10.00
Renewable Energy Plan		\$2.50	\$0.75
Commodity (per kWh) 1st 500 kWh		\$0.0937	\$0.1001 -----7% increase----->
Commodity (per kWh) Excess kWh		\$0.0989	\$0.1056 -----7% increase----->
ECA		\$0.022095	\$0.022095
Energy Optimization		\$0.001853	\$0.001853
Estimated Monthly Use	550 kWh		
Service Charge		\$8.10	\$10.00
Renewable Energy Plan		\$2.50	\$0.75
Commodity		\$ 64.97	\$ 68.50
Total Bill		\$75.57	\$79.25
		Increase --->	\$ 3.69
		Increase %--->	4.88%

Effect of a 9% Rate Increase on a Typical Monthly Residential Water Bill Using 6 ccf of Water Per Month

WATER:	6/1/2014	----9.0% increase---->	11/1/2014
Service Charge (per month)	\$11.19		\$12.20
Commodity (per ccf)	\$2.56		\$2.79
PCA	\$0.128		\$0.128
Estimated Monthly Use	4,500 gallons 6 ccf		4,500 gallons 6 ccf
Service Charge	\$ 11.19		\$ 12.20
Commodity	\$ 16.13		\$ 17.51
Total Bill	\$ 27.32		\$ 29.71
		Increase --->	\$ 2.39
		Increase %---	8.75%

General Manager Lark stated that the Board should strongly consider approving a rate increase. Among the reasons is in the last 2 years, we have not had a rate increase and during that time there has been inflation. Over the last 2 years, there has been roughly 6% increase in inflation and that is certainly a contender for reasons for a rate increase. There are expenses related to hardening our system for the storm (new hires, tree trimming expense) and the Return on Equity that is now 6.1%.

General Manager Lark respectfully requested that the Finance Committee forward the proposed Resolution setting a Public Hearing for September 18, 2014 to the full Board for consideration.

Motion by Commissioner Price, seconded by Commissioner Mullen to forward the proposed Resolution to set a Public Hearing to the full Board for consideration.

Action: Motion Carried

Internal Audit Update

Internal Auditor Phil Perkins, presented an overview of :

Internal Auditor Status Update

- FY 2014 Audit Plan Progress Report
- Proposed FY 2015 Audit Plan
- Other Upcoming Items

FY 2014 Audit Plan Progress Report

Engagement Completed:

1. Fuel Procurement Audit
2. Records Retention Audit
3. Accounts Payable Audit
4. Close the Books Audit – complete; report to be issued shortly.
5. Surprise Cash Counts (2)
6. Time Reporting Reviews

Engagement in Progress:

1. Software Licensing Compliance Audit—fieldwork about complete; report to be issued in August.
2. Draft Report to be issued shortly; audit 95% complete.

Proposed FY2015 Audit Plan

Basic for plan:

1. Risk assessments and ratings for each of 100-plus auditable activities at BWL.
2. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
3. Review and input by management.
4. Selection of the top audit candidates based on (1) through (3) above.

Proposed FY 2015 Audit Plan

Planned Audits:	Estimated Hours
Materials Inventory Management	400
Engineering Services – Annual Projects	400
Health Insurance & Prescription Drug Plans	400
Follow-up on Post-Outage Recommendations	400
IT – Payment Card Industry (PCI) Compliance	300
IT – Management of Non-Desktop Field Devices	300
Other Engagements:	
Surprise Cash Counts (2)	40
Time Reporting Reviews (2)	160
IT Risk Assessment (continued from FY2014)	100
Potential Consulting or Other Engagement	100
Total Estimated Hours	<u>2,600</u>

Motion by Commissioner Mullen, seconded by Commissioner Louney to approval to adopt the Audit Plan.

Action: Motion Carried

Motion by Commissioner Mullen, seconded by Commissioner Price, to maintain the Internal Audit Charter as currently written.

Action: Carried Unanimously

Internal Auditor Perkins informed the Committee that he recently made some changes to the Internal Auditing procedures and would provide the Commissioners with an electronic list of the changes.

Finance Chair Bossenbery introduced a proposed policy for the Finance Committee to take a look at, and consider forwarding to the full Board for consideration and approval. Chair Bossenbery stated that we get Audit reports from Mr. Perkins periodically and part of those audits include actions from management that need to be taken care of. There is not a formalized procedure for management to get back with Mr. Perkins in response to the completion of actions and recommendations. Mr. Perkins has drafted a procedure, so that he has a tracking system to ensure implementation of actions, thus a policy.

Mr. Perkins stated that it is important to have this policy in place because it gives him, as well as the Board, a window as to how progress is being made, and getting corrective actions completed and in turn will help with future audit planning.

Draft – Proposed 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) 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 basis, the status of such corrective actions until they are completed.
 - a. There should be a notation each quarter regarding progress, if any, toward completion of the corrective action. If other priorities precluded further progress during a quarter, this should be so stated.
 - b. The Internal Auditor will receive an updated schedule each quarter 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.
 - 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 Price, seconded by Commissioner Louney, to approve the Policy on following up to the Internal Auditors finding and recommendations.

Action: Motion Carried

Excused Absence

None

Other

None

Adjourn

On Motion by Commissioner Price, seconded by Commissioner Louney, the meeting adjourned at 9:15 p.m.

Respectfully submitted
Margaret Bossenbery, Chair
Finance Committee

Fiscal Year 2014 Audited Financial Statements

RESOLVED, that the fiscal year 2014 Audited Financial Statements of the Enterprise Fund and the Pension Fiduciary Funds of the Board of Water and Light have been reviewed and is hereby accepted as presented.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2014 Audited Financial Statements of the Enterprise Fund and the Pension Fiduciary Funds of the Board of Water and Light and the report on auditing procedures with the State Treasurer as required by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended) no later than December 31, 2014.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2014 Audited Financial Statements of the Enterprise Fund and Pension Fiduciary Funds of the Board of Water and Light with the City of Lansing.