



## **FINANCE COMMITTEE MEETING**

### **AGENDA**

**January 14, 2020**

**5:30 p.m.—1201 S. Washington Ave.**

**Lansing, MI — REO Town Depot**

**Board of Water & Light Headquarters**

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of November 5, 2019.....**TAB 1**
2. November YTD Financial Summary.....**TAB 2**
3. Bi-Annual Internal Audit Report .....**TAB 3**
4. Internal Audit Status Report.....**TAB 4**

Other

Adjourn

## FINANCE COMMITTEE Meeting Minutes November 5, 2019

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 5, 2019.

Finance Committee Chair Ken Ross called the meeting to order at 6:45 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, David Lenz, Tony Mullen, and David Price. Also present: Commissioner Tracy Thomas, and Non-Voting Commissioner Larry Merrill (Delta Township).

Absent: None

The Corporate Secretary declared a quorum.

### Public Comments

None.

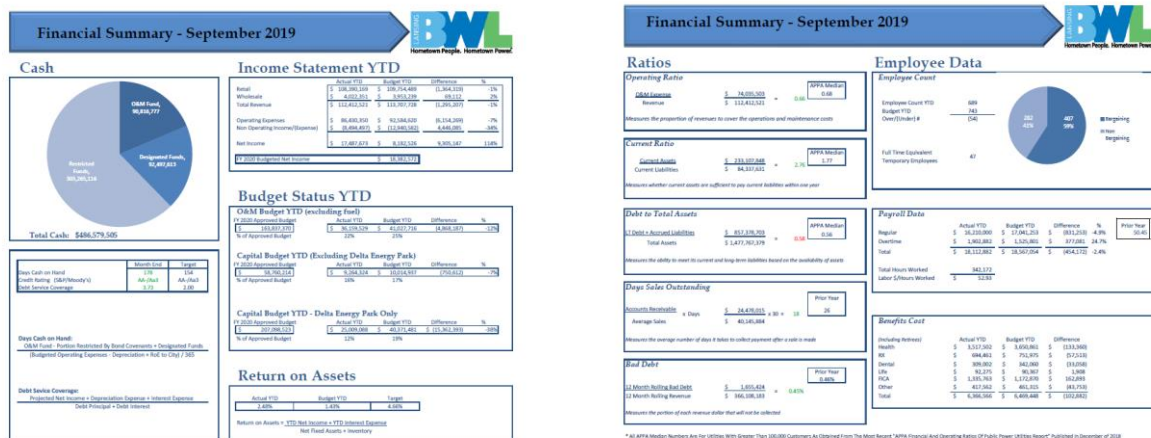
### Approval of Minutes

**Motion** by Commissioner Price, **Seconded** by Commissioner Mullen, to approve the Finance Committee meeting minutes of September 10, 2019.

**Action:** Motion Carried.

### September YTD Financial Summary

Chief Financial Officer (CFO), Heather Shawa presented the following:



Days Cash on hand for YTD is \$178 million which is well above the target in the budget, as is the Debt Service Coverage. The Income Statement Q1 results for Total Revenue are under budget \$1.3 million. The YTD budgeted Net Income is \$8 million and the current actual Net Income is well over that. The FY 2020 Budgeted Net Income of \$18.3 million is expected to be achieved

or exceeded slightly. The Budget Status YTD for Capital Projects is on track and the Delta Energy Park spend is trending up toward budget. Major equipment will be arriving and will have major vendor payments and that spend will track to budget as well. Return on Assets for quarter one is well over budget as well, trending with Net Income. Ms. Shawa reported that four of the five ratios are on track and that Debt to Total Assets will level out throughout the year. Employee Data is consistent with prior months. Payroll Data and Benefits Cost is tracking in line with budget as well.

Commissioner Lenz asked from where the operating expenses savings are realized. Ms. Shawa responded that some of it is timing in budgeting an expense compared to when the expense is realized. Ms. Shawa responded that there was a positive VEBA adjustment that was reported for the last financial summary which has a cumulative effect that will be carried out for the rest of the fiscal year. Ms. Shawa also responded that the Non-Operating Expense/Income under budget is primarily unrealized gains.

Commissioner Lenz asked if temporary or full time equivalent employees are budgeted or projected out for the year. Ms. Shawa responded that there is a labor budget and additionally outside services for temporary labor is budgeted.

#### **First Supplemental Utility System Revenue Bond Resolution**

Ms. Shawa reported that due to historical market lows the BWL is in a very good position to refund the 2011a Series bonds for the REO plant. Ms. Shawa introduced bond counsel from Miller Canfield, Mr. Bill Danhof and Mr. Jeff Aronoff. Ms. Shawa turned over the floor to Finance Manager, Mr. Scott Taylor, to go over the bond resolution authorizing the CFO to carry out refunding of the bonds. Mr. Taylor explained the bond issuance process as tax exempt revenue bonds that are 30 years from maturity and have a 10-year call feature. The 10-year call feature means the point at which the bond can be refinanced. Tax exempt means a favorable borrowing rate, and revenue bonds means payment is made by the revenues of our system. In 2011, \$250 million in bonds were issued to fund the REO plant and in 2021 these bonds will be 10 years old. Due to a 2017 tax law change, the ability to advance refinance the debt with tax exempt bonds can't be done as has been done in the past, but taxable money is able to be borrowed now and set aside to pay the debt when it is callable in 2021. Mr. Taylor noted that it is not always a good idea to do an advance refunding but the rates are very low right now. The tax savings would be for the remaining 20 years. The plan is for a December bond issuance unless market conditions change or otherwise, which would then lead to a January issuance. Mr. Taylor requested approval of the board of the bond resolution.

Commissioner Mullen asked why the BWL wouldn't wait until 2021 to refinance with the tax exempt status and a better interest rate since interest rates are trending down. Mr. Taylor responded that that was taken into consideration, but experts believe there is more room for the rates to go up than down, and there will be a major re-election before the tax exemption refunding would take place.

Commissioner Ross asked what the approximate differential basis points between taxable and nontaxable municipal bonds and what is being issued. Mr. Taylor responded that about 30 basis points was reported. Commissioner Ross also asked what the increase in cost would be to customers. Mr. Taylor responded that it will be a net savings to customers as it is to the BWL. Commissioner Ross asked what the difference would be of issuance on a tax free basis as they used to be. Mr. Taylor responded that savings will be realized as proposed and another 10-year call action will be included which will allow converting to tax exempt debt again. Commissioner Ross noted that there is a trade for a slightly higher premium and the flexibility to choose when to refinance. Commissioner Ross asked what the refinancing bond issuance costs would be and what the return would be over the refinancing period. Mr. Taylor responded that the refinancing bond issuance costs would be approximately \$1.5 million and the return would be over \$2 million dollars a year in average cash flow savings.

Commissioner Mullen asked whether the resolution requires that an action be taken and Ms. Shawa responded that the resolution authorizes a transaction but does not obligate a transaction.

Commissioner Ross noted that recently a resolution was passed authorizing Phase Three funding and asked why it doesn't make sense to roll Phase Three into this resolution. Mr. Taylor responded that there were some efficiencies as costs overlapped when combining the resolutions, but one would have to be delayed or the other brought forward and the risk of market rate changes on the one delayed and the additional interest costs on the one brought forward would affect the savings realized.

**Motion** by Commissioner Price, **Seconded** by Commissioner Mullen, to forward the First Supplemental Utility System Revenue Bond Resolution to the full Board for consideration.

**Action:** Motion Carried.

### **Internal Auditor Status Report**

Internal Auditor, Mr. Wesley Lewis, presented the Internal Auditor Status Report.



#### **Internal Audit Status Report**

Presented by:  
Wesley Lewis, Director of Internal Audit  
Finance Committee Meeting  
November 5, 2019

#### **Overview**

- FY 2019 Audit Plan Progress Report
- Update on FY 2020 Audit Plan
- Other Items

#### **FY 2019 Audit Plan Progress Report**

##### Engagement in Progress:

1. Procurement Audit – Final audit report to be issued soon.



Finance Committee Meeting  
11/5/2019

2



Finance Committee Meeting  
11/5/2019

3

### Update on FY 2020 Audit Plan

1. *Cash Management and Treasury Audit (First Time Audit) – Kicked off on 9/30/2019 and is in progress.*
2. *Fixed Assets (Last audited in May 2012) – Kicked off on 10/21/2019 and in progress.*
3. *Work Management (WMI) (First Time Audit) – Scheduled kickoff is 1/20/2020.*
4. *Customer Projects (Last Audited in March 2015 and to be executed at the same time as the WMI Audit) – Scheduled kickoff is 1/20/2020.*
5. *Energy Risk Management (Last Audited in June 2013) – Scheduled kickoff is 4/9/2020.*
6. *IT Vulnerability Assessments (First Time Audit) – Scheduled kickoff is 5/25/2020.*

\* As previously reported, this plan, along with all dates, are subject to change.



Finance Committee Meeting  
11/5/2019

4

### Other Items

1. Current Technology Upgrades
  - Internal Audit Management Software System
  - Information Analytics Tool, with Artificial Intelligence
2. Staffing
3. ISO Certification for Internal Audit
4. CISA Exam Progress



Finance Committee Meeting  
11/5/2019

5

Commissioner Ross asked for an explanation of the information analytics tool with artificial intelligence. Mr. Lewis responded that the information analytics tool is different from data analytics in that it includes artificial intelligence which will look at the data sets, conform to the structure of the data and look for red flags or anomalies. Commissioner Ross asked for a future presentation on the value and return on investment of the software.

Commissioner Price inquired when the onboarding date would be for the Internal Auditor Assistant and Mr. Lewis responded mid-December.

Commissioner Lenz asked if the technology upgrades for the software are industry standard and is there a change in the way data is being analyzed. Mr. Lewis responded that the software upgrade is enhancing analyzing the data and different companies utilize different tools.

Commissioner Thomas asked when and how often the CISA Exam is offered. Mr. Lewis responded that the exam is offered at any time.

### Other

None

### Adjourn

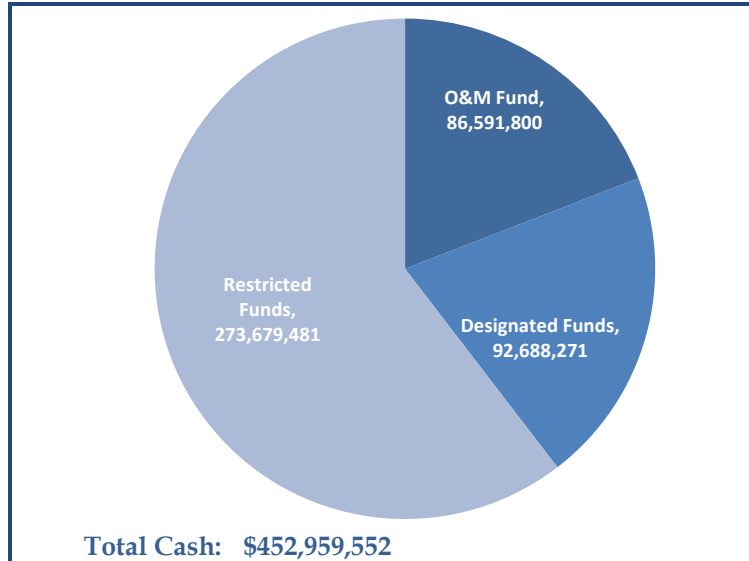
Motion by Commissioner Mullen to adjourn the meeting. Chair Ken Ross adjourned the meeting at 7:20 p.m.

Respectfully submitted  
Ken Ross, Chair  
Finance Committee

# Financial Summary - November 2019



## Cash



## Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 163,059,769	\$ 166,309,090	(3,249,321)	-2%
Wholesale	\$ 6,709,964	\$ 7,463,292	(753,328)	-10%
<b>Total Revenue</b>	<b>\$ 169,769,733</b>	<b>\$ 173,772,382</b>	<b>(4,002,649)</b>	<b>-2%</b>
Operating Expenses	\$ 133,387,334	\$ 143,517,800	(10,130,466)	-7%
Non Operating Income/(Expense)	\$ (16,134,372)	\$ (20,689,937)	4,555,565	-22%
<b>Net Income</b>	<b>\$ 20,248,026</b>	<b>\$ 9,564,644</b>	<b>10,683,382</b>	<b>112%</b>
<b>FY 2020 Budgeted Net Income</b>		<b>\$ 18,382,572</b>		

## Budget Status YTD

### O&M Budget YTD (excluding fuel)

FY 2020 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 163,837,370	\$ 60,000,138	\$ 67,181,384	(7,181,246)	-11%
% of Approved Budget	37%	41%		

### Capital Budget YTD (Excluding Delta Energy Park)

FY 2020 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 58,760,214	\$ 17,627,939	\$ 18,911,069	(1,283,130)	-7%
% of Approved Budget	30%	32%		

### Capital Budget YTD - Delta Energy Park Only

FY 2020 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 207,098,523	\$ 49,757,642	\$ 77,777,539	\$ (28,019,896)	-36%
% of Approved Budget	24%	38%		

	Month End	Target
Days Cash on Hand	173	154
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.73	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

## Return on Assets

Actual YTD	Budget YTD	Target
3.16%	1.99%	4.66%

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

# Financial Summary - November 2019



## Ratios

### Operating Ratio

O&M Expense	\$ 112,734,986	=	0.66	APPA Median 0.68
Revenue	\$ 169,769,733			

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

### Current Ratio

Current Assets	\$ 233,557,791	=	3.03	APPA Median 1.77
Current Liabilities	\$ 77,083,959			

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

### Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 848,786,361	=	0.58	APPA Median 0.56
Total Assets	\$ 1,471,935,390			

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

### Days Sales Outstanding

Accounts Receivable	\$ 25,582,938	x 30 =	27	Prior Year 24
Average Sales	\$ 28,678,606			

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

### Bad Debt

12 Month Rolling Bad Debt	\$ 1,548,995	=	0.42%	Prior Year 0.44%
12 Month Rolling Revenue	\$ 367,112,318			

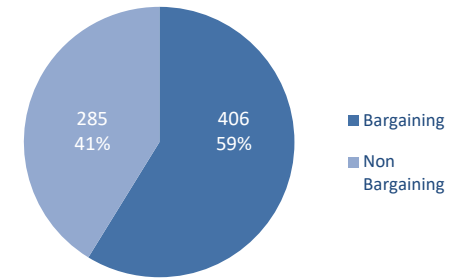
Measures the portion of each revenue dollar that will not be collected

## Employee Data

### Employee Count

Employee Count YTD	691
Budget YTD	742
Over/(Under) #	(51)

Full Time Equivalent	39
Temporary Employees	



### Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 25,423,280	\$ 26,870,510	\$ (1,447,230)	-5.4%	50.83
Overtime	\$ 2,867,858	\$ 2,433,879	\$ 433,979	17.8%	
Total	\$ 28,291,138	\$ 29,304,389	\$ (1,013,251)	-3.5%	
Total Hours Worked	544,481				
Labor \$/Hours Worked	\$ 51.96				

### Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 6,043,275	\$ 6,006,731	\$ 36,544
RX	\$ 1,396,826	\$ 1,369,590	\$ 27,236
Dental	\$ 531,773	\$ 570,100	\$ (38,327)
Life	\$ 153,622	\$ 152,732	\$ 890
FICA	\$ 2,039,999	\$ 2,133,899	\$ (93,900)
Other	\$ 749,581	\$ 725,026	\$ 24,555
Total	\$ 10,915,077	\$ 10,958,078	\$ (43,002)

\* All APPA Median Numbers Are For Utilities With Greater Than 100,000 Customers As Obtained From The Most Recent "APPA Financial And Operating Ratios Of Public Power Utilities Report" Published In December of 2018



# Follow-up to Internal Audit Findings & Recommendations

Finance Committee 1/14/20



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 (2 carried over, 5 new)

- ▶ Succession Planning
  - ▶ Identify all critical positions as soon as possible - ECD 4/30/20
- ▶ Vegetation Management
  - ▶ Discuss current practice with internal experts to ensure best practice - ECD 6/30/20
- ▶ Cybersecurity Policies
  - ▶ Update the communications technology policy to better address cybersecurity - ECD 3/24/20
- ▶ Procurement
  - ▶ Improve controls related to maintenance of vendor information - ECD 6/30/20
  - ▶ Review the cost vs benefit of SAP programming changes to modify the approval process - ECD 6/30/20
  - ▶ Standardize and centralize storage of purchasing documentation - ECD 10/31/20
  - ▶ Improve controls and documentation related to sole-source justifications and exclusions - ECD 6/30/20

## Closed Actions (6 carried over, 1 new)

- ▶ **Contract Signature Authority Compliance**
  - ▶ Ensure signatures obtained, update special delegation, align with purchasing procedures
  - ▶ Ensure execution of proper workflow, filing, and documentation
- ▶ **COBIT Compliance Follow-up**
  - ▶ Complete COBIT compliance efforts as soon as possible
- ▶ **Metering Services**
  - ▶ Ensure centralized electronic backup of key records
  - ▶ Review and implement additional risk management controls related to AML as appropriate
- ▶ **Accounts Payable**
  - ▶ Reconcile and monitor clearing accounts periodically and maintain related procedures
- ▶ **Cybersecurity Policies**
  - ▶ Implement first 6 of 20 CIS controls and develop implementation plan for remaining 14



# **Internal Audit Status Report**

Presented by:  
Wesley Lewis, Director of Internal Audit  
Finance Committee Meeting  
January 14, 2020

# Overview

- Revised FY 2020 Audit Plan and Progress Report
- Other Items

# Revised FY 2020 Audit Plan and Progress Report

1. Cash Management and Treasury Audit (First Time Audit) – Kicked off on 9/30/2019 and is in progress.
2. Fixed Assets (Last audited in May 2012) – Kicked off on 10/21/2019 and in progress.
3. Energy Risk Management (Last Audited in June 2013) – Scheduled kickoff is 4/6/2020.

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# Other Items

1. Staffing Update - New Principal Auditor
2. Current Technology Upgrades
  - Internal Audit Management Software System
  - Information Analytics Tool, with Artificial Intelligence
3. ISO Certification for Internal Audit
4. CISA Exam Progress