

Detroit Water and Sewerage Department



2014 Veolia Peer Review Report Feedback & Status Update

**Phase I - Financial Services Group
Presentation to the
Great Lakes Water Authority Board
April 14, 2015**

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INTRODUCTION

DAN RAINEY & CHERYL PORTER

Veolia Peer Review Project Overview

- Review and validate the consensus 5-year financial plan revealed during the 2014 bond offering
- To review DWSD operations and operational plans with best practices in mind and to make recommendations around any optimizations
- Align this peer review with current DWSD initiatives to help DWSD to go further faster
- DWSD staff committed to:
 - Timely completion of information requests
 - Attending meetings , “ride-alongs” and facility & process area reviews with Veolia Subject Matter Experts
 - Eight-week data gathering phase of project schedule
 - Communication and escalation processes

Veolia Deliverables

- Report 1 – Initial Scope
 - GLWA as the service provider to both the City of Detroit and the suburban communities
 - Confirm savings to offset control premium payments
 - Look at the entire operation
 - Go further faster!
- Report 2 – Amended Scope
 - Separation of services between the City of Detroit retail and the GLWA regional assets

Key Project Personnel



Mark Sanderson
Vice President



Denny Tulenson
Vice President



Carol Symes
Technical Manager



Manshi Low
PMO Manager



Dan Rainey
Chief Information
Officer



Cheryl Porter
Chief Operating
Officer

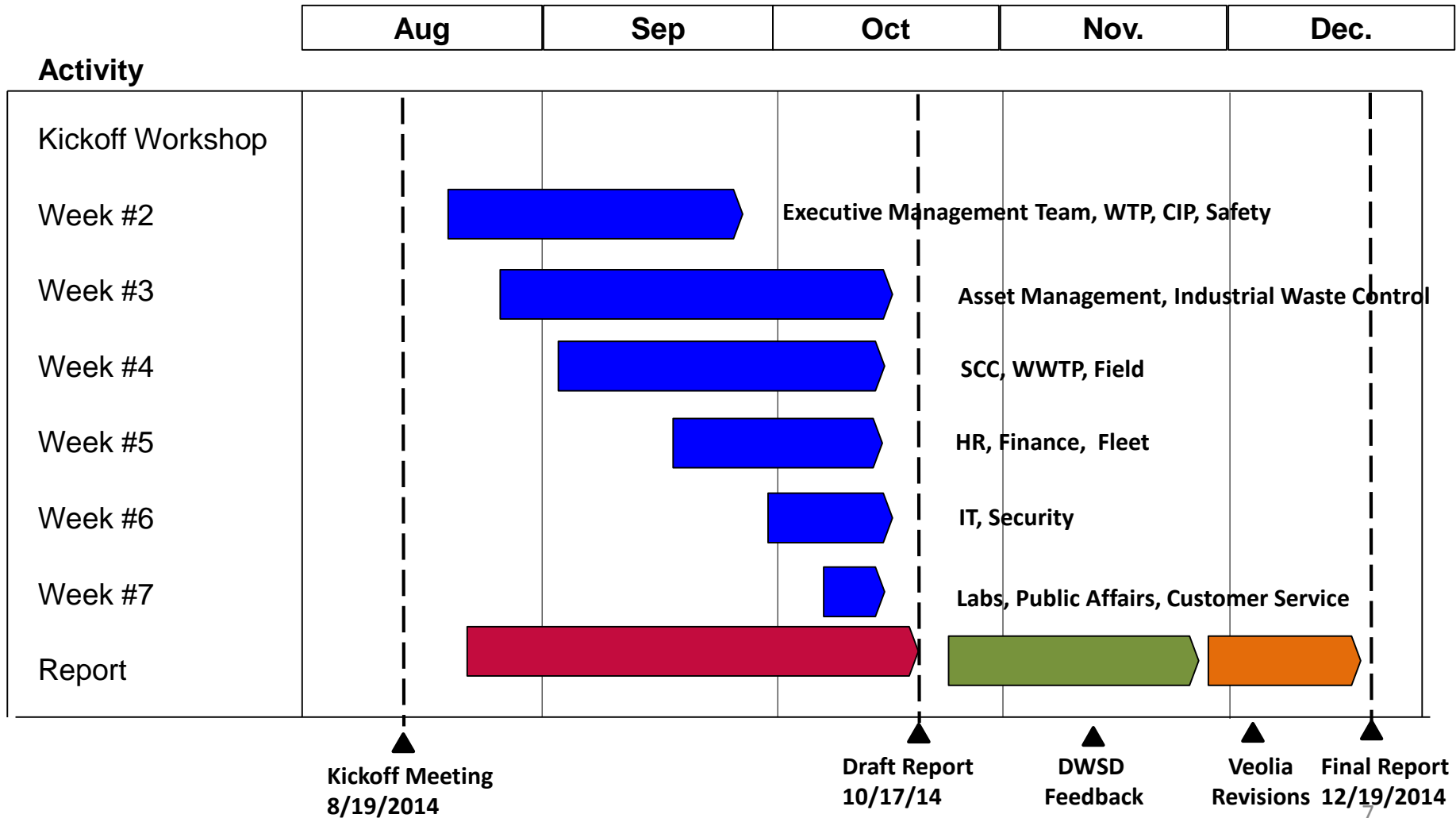
Veolia – Peer Report Authors

- 50+ Subject Matter Experts
 - 2,500+ on-site hours
 - 2,000+ documents

Project Oversight / Participation

- DWSD 2 Project Managers and 40+ Subject Matter Experts
- Project Oversight Committee
- Weekly meetings with key stakeholders
- Multiple daily meetings and reviews with stakeholders and subject matter experts across utility

Peer Review Project Schedule: 12 Weeks



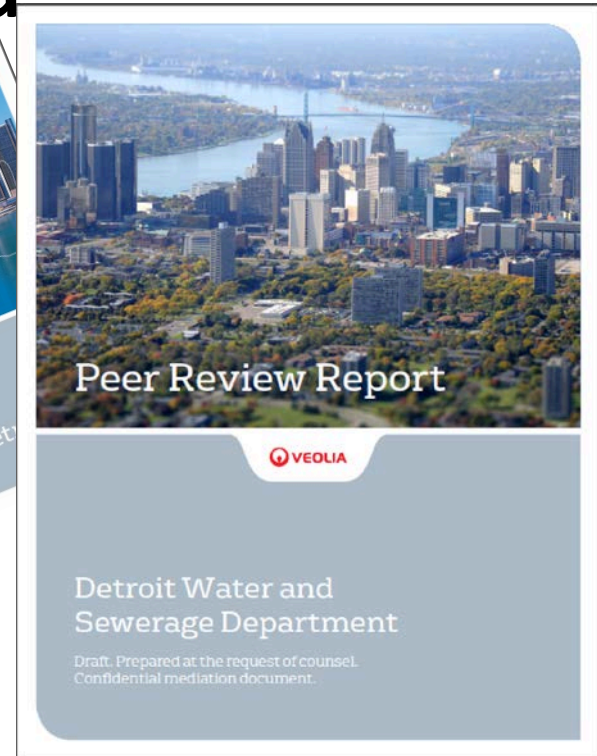
Findings & Opportunities

- Investing in People
- Investing in Assets
- Focus on Wastewater
- Improving Financial Management
- Right-sizing Capacity
- Implementing Operational Enhancements
- Prioritizing Capital Investments

Validates feasibility of DWSD expense reductions in analysis of lease payment feasibility

Many aspects of Veolia recommendations are ongoing DWSD initiatives; Veolia recommendations “go further, faster”, may alter course and reflects differences in approach (public vs. private sector perspectives) in some scenarios

Moving Forward



- Findings and Recommendations:
 - Available on dwsd.org
 - Provide menu of options
 - Some will be implemented, some will not
 - Reports provide a resource for GLWA and the City of Detroit

COST SAVINGS

BUTCH JOHNSON & ILENE WEATHERS

Cost Savings

(Reductions, Avoidance, Containment)

Veolia Recommendations

- Achieve Support Functions Savings estimated below

FY	Total Savings
2015	\$ 3,339,766
2016	\$ 13,039,870
2017	\$ 14,206,417
2018	\$ 14,243,761
2019	\$ 14,875,331

- Achieve working capital gains through modified payment terms and early pay discounts
- Installation of fleet-wide GPS tracking system accounts for 100% of maintenance management savings (fuel and staff productivity)

DWSD Feedback /Status Update

Category	Realized Savings
Competitive Process	\$ 1,920,000
Consolidated/Leveraged Purchases	\$ 110,000
Negotiated Savings	\$ 420,000
Outsourcing	\$ 1,200,000*
Inventory Optimization	\$ 1,480,000
TOTAL SAVINGS (Yr 1)	\$ 5,120,000

- Continue to examine other segments including material substitutions, specification/scope modifications, transactional costs, insourcing and cost sharing agreements to identify direct cost savings, cost containment and revenue generating opportunities

* Estimated figure based on preliminary forecast

Cost Savings - Leases

Veolia Recommendations

- Equipment Rentals - \$0.9 Mil Total Spend
- Conduct a specifications review to determine if the correct product is being rented
 - Tender equipment rental as an RFP, rather than an RFQ, in order to open up negotiation opportunities and improve the competition from national suppliers trying to capture local markets they exist in (awarded on daily rates vs. weekly rates)
 - Analyze rent vs. buy opportunities and complete Total Cost of Ownership (TCO) analysis on all cost line items (fees, taxes, title, charges, training, etc.) for better determination

DWSD Feedback /Status Update

- Review and evaluate equipment and machinery costs, utilization, project life cycles, repair and maintenance costs to determine requirements by 4Q 2015 in light of bifurcation
- Conduct “rent vs. buy” analysis for cost-benefit assessment by 1Q 2016

Cost Savings - Services

Veolia Recommendations

- Contracted & Professional Services - \$112 Mil Total Spend
- Pursue significant reduction in contracted services, especially those related to labor support
 - a. Construction & Repair Services
 - b. Professional & Consulting Services
\$33.8 Mil Total Spend ~ 38 Suppliers
- State of Michigan requirement for green infrastructure
2 Contracts - \$15.6 Mil
 - a. Fuel (Retail and Bulk)
 - b. MRO/operational supplies and spare parts
 - c. Fleet & Rolling Stock

DWSD Feedback /Status Update

- Initiated Supplier Quarterly Business Reviews (QBRs) in Dec 2014 with initial focus on sourcing optimization, supplier rationalization and long term capacity development on As-Needed, Engineering Services and Skilled Trades contracts

Inventory Optimization	Realized Savings
Reduction & Elimination of Excess Inventory	\$ 680,000
Just-In-Time/Vendor Managed Inventory of Electrical Parts & Controls	\$ 200,000
Just-In-Time Procurement of Office Supplies	\$ 600,000
TOTAL SAVINGS (Yr 1)	\$ 1,480,000

PROCUREMENT
BUTCH JOHNSON & ILENE WEATHERS

Inventory/Asset Management & Oracle Work & Asset Mgmt (WAM)

Veolia Recommendations

- Improve inventory control and management practices
- Improve inventory security
 - a. Keep inventory access points limited and guarded by storekeeper
 - b. Consider adding surveillance and added signage
- Reevaluate the current WAM implementation of inventory and work order management modules in the absence of solid asset hierarchy methodology and population of system
- Develop and implement surplus assets program

DWSD Feedback /Status Update

- Assignment of asset tags is currently in progress
- Implementation of RFID and barcoding pending system reconfiguration projected by 1Q 2016
- IT solution provider performed additional code development to address data transfer to City of Detroit Oracle E-Business Suite
- Plans in development to standardize policies and procedures and address knowledge gaps with targeted training by 4Q 2015
- Determine requirements to integrate Asset Management module
- Evaluate appraisal services for asset valuation for disposition of inventory by 4Q 2015

Fleet Management

Veolia Recommendations

- Installation of fleet-wide GPS tracking system accounts for 100% of maintenance management savings

FY	Total Savings	Capital Req'd
2015	\$108,000 - \$307,000	\$ 90,000

- Update fleet and heavy equipment maintenance policies and systems
- Implement fleet gas card program

DWSD Feedback /Status Update

- Determine fleet vehicle requirements by 4Q 2015 in support of bifurcation of GLWA and DWSD-R and assess feasibility to integrate existing GPS system into available inventory
- Identified top 7 Fleet Navigation system suppliers to benchmark and evaluate through cost/benefit analysis pending completion of fleet stock inventory by April 2015

Performance Reporting & Continuous Improvement

Veolia Recommendations

- Determine appropriate key performance indicators (KPI)
- Develop robust reporting processes to communicate monthly results
- Implement new enterprise resource planning system (ERP) with integrated modules
- Establish Scorecard in form of a computer dashboard or infographic accessible to all staff
- Eliminate unnecessary minimum cycle times
- Increase Purchasing threshold for recurring expenses requiring Board approval
- Improve clearance processes (DWSD-R)
 - a. Consolidate assigned staff to a portion of one FTE
 - b. Transfer clearance responsibilities to bidder
- Improve requisition validation process

DWSD Feedback /Status Update

- Current KPIs are under evaluation for accuracy and effectiveness

Functional Area	# KPIs
Procurement	14
Supplier Performance	6
Materials Management	8
Contract Administration	5
Grants Management	8

- Manual reports and scorecard planned for posting on website by 3Q 2016 contingent upon resource and system constraints until implementation of automated systems
- Identify in-house staff that are certified as Greenbelts and deploy on Lean initiatives by 1Q 2016

Organization Realignment

Veolia Recommendations

- Reorganize Procurement function to new structure
- Reduce or repurpose 21 FTEs
- Streamline organization and processes to free up resources for strategic sourcing, supplier management and internal customer service
- Streamline and map purchasing processes and touch points to reduce touch points
- Center processes on performance and align with Operations to build true partnerships between procurement and operations
- Clarify job descriptions to improve performance metrics

DWSD Feedback /Status Update

- Undergoing consolidation of Purchasing, Contracts & Grants and Materials Management along with restructure with launch beginning April 2015
- Plans to Evaluate expanded alternate delivery methods and eProcurement technologies to address constraints and implement best practices and workflow technologies as system functionality becomes available
- Development of MOU between City of Detroit & GLWA and SLA between GLWA & DWSD will further define staff positions and functions by 4Q 2015 and enable assessment of professional development and training requirements

Procurement Policies & Strategies

Veolia Recommendations

- Develop and integrate sourcing and pricing strategies in active spend categories to improve savings opportunities
- Conduct market research to increase competition
- Categorize tangible spend categories to create cost savings
- Optimize use of RFPs and reduce use of RFQs
- Eliminate acceptance of post-base term price increases by suppliers
- Adopt payment term negotiations and unlock savings for working capital

DWSD Feedback/Status Update

- Ongoing efforts to identify savings opportunities and monitor progress to defined targets
- GLWA Purchasing Policies & Procedures are under development; DWSD-R Policies & Procedures will be subject to MOU & SLA
- Currently benchmarking AIA, EJCDC and ATC to update contract terms & conditions as necessary
- Plans under development to incorporate spend analytics, category management, commodities, and competitive intelligence and practices

Supply Management & Development

Veolia Recommendations

- Improve use of GSA contracts and Cooperative Purchases to reduce purchasing time-frames and leverage volumes
- Implementation of Just-In-Time (JIT) approach
- Quarterly Business Reviews with Key Suppliers
- Require competitive bidding and minimum of two bids for small purchases
- Ensure that categorization of advertised Bid Opportunities do not indicate pricing thresholds

DWSD Feedback /Status Update

- Incorporate Cooperative Purchasing criteria in contract approval process
- Maintain a list of Cooperative Purchasing organizations on website portal by 4Q 2015
- Plans under development to manage spend data, optimize sourcing process, and leverage negotiations to improve competitive performance by 4Q 2015
- Plans in progress to identify Vendor Managed Inventory (VMI) and Consolidated Logistics (LTL) opportunities by 4Q 2015
- Launched Supplier Quarterly Business Review (QBR) process in Dec 2014
- Continue ongoing evaluation of alternate sourcing strategies and competitive practices

FINANCE AND BUDGETING
NICOLETTE BATESON & MARK SAVITSKIE

Finance and Budgeting - Performance Recording and Monitoring

Veolia Recommendations

- Reconfigure financial closing process to close books in a timely and accurate manner
- Develop robust financial reporting process to communicate results to all stakeholders
- Implement new ERP reporting tool to improve efficiency and effectiveness

DWSD Feedback /Status Update

- Currently moving in collaboration with the City of Detroit on establishing an ERP system (Oracle Fusion) with best practices deployed
- Most limitations, including closing cycles, controlled by City of Detroit financial system processes (owner of existing ERP)
- Current KPIs will be enhanced with launch of ERP system
- “Go alone” GLWA ERP system plans on hold pending lease negotiations
- GLWA start-up on COD ERP system set for launch in October 2015

Finance and Budgeting - Rates, Debt, & Structure

Veolia Recommendations

- Improve depth of internal rate modeling capacity
- Build internal debt management capacity
- Improve recordkeeping of capital projects funded by bond proceeds
- Reorganized finance function would take 12 to 15 months with an additional six months to finalize new systems

DWSD Feedback /Status Update

- New rate model role evolving
- Public Finance Manager (debt and rates) position filled February 2015; two vacancies to be posted in ten days
- Dedicated, contracted resources to improve financial management in place to bridge job design rollout over next 90 days
- Cross-functional teams presently working to address entire business cycles – capital, expenses, revenues

Finance and Budgeting - Internal Controls

Veolia Recommendations

- Improve internal controls over the billing and cash collections process
- Create structure for imbedding internal control as a fundamental element of all processes

DWSD Feedback /Status Update

- Inovah (cash receipts) and enQuesta (billing) systems currently provide strong foundation for controlled billing and cash receiving process
- Resources have been devoted to billing and cash receipts resulting in numerous improvements
- A contracted internal audit function is provided in the new org structure being rolled out; this function will provide a risk-based auditing process and development of internal control policies and procedures

FSG Staff Benchmarking Overall

Benchmark	CFO	Finance	Treasury	Procurement	Total
EMA*+	2	12	5	41	60
Veolia*	2	27	4	50	83
DWSD Filled Positions, based on natural attrition over 3 year period, 11.1.2014	2	21	8	56	87
CFO Proposal, 12.8.2014	3	28	11	56	98

* Both benchmarks presume fully implemented technology, a mature staff capacity, and modernized business practices.

+ Note that EMA's focus was operating unit efficiency; Implications of Judge Cox's orders were evolving concurrently while EMA worked with employee design teams; level of "new", independent DWSD Financial Services Group responsibilities were not readily evident

NEXT STEPS

DWSD Peer Review Reporting – Next Phases

Division Reports

- Water Operations
- Wastewater Operations
- Energy Management
- Technology
- Capital Planning & Engineering
- Customer Service
- Human Resources

Ongoing Reporting

- Data Analytic Capacity (people and technology)
- Performance Reporting