



**Great Lakes Water Authority
Audit Committee**

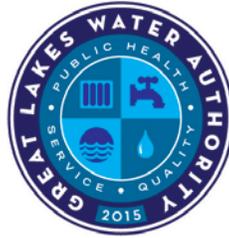
Meeting Agenda

Wednesday, April 1, 2015 at 11:30 a.m.

5th Floor Board Room, Water Board Building
735 Randolph Street, Detroit, Michigan 48226
GLWater.org

AGENDA

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES
 - A. March 6, 2015
5. PUBLIC PARTICIPATION
6. OLD BUSINESS
7. NEW BUSINESS
 - A. Update: Selection of GLWA Bond Counsel and Financial Advisor
8. REPORTS
 - A. Status Report: City of Detroit Water & Sewerage System and City of Detroit FY 2014 Audit Update
 - B. Status Report: GLWA Financial Activities in Process
9. OTHER MATTERS
 - A. Financial Metrics (Personnel Costs)
 - B. Financial Operations Benchmarking (Quick Wins)
 - C. Policy Discussion: Bifurcation - Net Budget Neutral
 - D. Audit Committee CY 2015 Work Plan
10. ADJOURNMENT



**GREAT LAKES
WATER AUTHORITY**

BOARD OF DIRECTORS
MARCH 6, 2015 MONTHLY
AUDIT COMMITTEE MEETING
MINUTES

1. Call to Order

Chairman Baker called the meeting to order at 9:00 A.M.

2. Quorum Call

Brian Baker, Robert Daddow, and Joseph Nardone

3. Approval of Agenda

Chairman Baker requested approval of the agenda.

MOTION BY:	ROBERT DADDOW
SUPPORT:	JOSEPH NARDONE
ACTION:	APPROVED

4. Approval of Minutes

Chairman Baker requested approval of the minutes from the meeting of February 6, 2015.

MOTION BY:	ROBERT DADDOW
SUPPORT:	JOSEPH NARDONE
ACTION:	APPROVED

5. Public Participation

None

6. Old Business

None

7. New Business

A. Review of the Preliminary FY 2014 Financial Results

Nicolette Bateson, DWSD Chief Financial Officer provided the committee with a draft summary of the Financial Reports for FY June 30, 2014.

B. Rates and Charges Methodology

Bart Foster introduced the recommended schedules of the water and sewer rates for FY 2015-16.

C. Five-year Forecast

Bart Foster summarized the 5-year financial plan projections.

D. Finance Transformation Efforts

Nicolette Bateson submitted material on the Finance Transformation Phase II.

E. Transition from Interim Procurement Policy

Nicolette Bateson reported that draft procurement policies and procedures are in progress.

8. Reports – No Update

A. Status Report: Board of Water Commissioners Financial Activities

B. Status Report: Great Lakes Water Financial Activities in Process

9. Other Matters – No Update

A. GLWA Audit Committee Work Plan Update

10. Adjournment

Chairman Baker requested a motion to adjourn.

MOTION BY:	ROBERT DADDOW
SUPPORT:	JOSEPH NARDONE
ACTION:	APPROVED

There being no further business, the meeting was adjourned at 10:42 P.M.

Future Meeting Dates

April 1, 2015 at 11:30 AM

May 1, 2015 at 9 AM

June 5, 2015 at 9 AM



Great Lakes Water Authority
Audit Committee Report
April 1, 2015

Date: March 30, 2015

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA

Chief Financial Officer, Detroit Water & Sewerage Department

Re: Financial Metrics Report – Personnel Costs

The Detroit Water & Sewerage Department (DWSD) is in its third year of unprecedented organizational change. The catalyst for this change was the findings of a Root Cause Committee appointed by the Honorable Judge Sean F. Cox in 2011. The Committee's task was to identify the barriers to regulatory compliance for almost 35 years. Key outcomes of that evaluation granted the DWSD to stand up finance, human resources, legal counsel, and procurement independent of the City of Detroit. The authority for the restructured administrative functions is memorialized in court orders issued from 2011 through 2013. In April 2013, 37 years of federal court oversight ended due to substantial progress made in compliance, governance, and management of DWSD.

With a new governance structure and level of agility in its financial management and business practices, the DWSD was able to pursue meaningful organizational change in 2012. This included the engagement of EMA, Inc. to assist DWSD with an optimization program to modernize job design, business processes, and technology planning. As jobs were redesigned, the DWSD engaged Fox Lawson to conduct a compensation study and job analysis. The goal was to align the newly redesigned positions with appropriate compensation levels including extensive benchmarking data. The rollout of those new job designs was to occur in 2013.

During this timeframe, there were several other key events. In an effort to address the City's financial crises, many employees' wage and salary rates were reduced by 10% in 2011/12. In July 2013, the City of Detroit filed for Chapter 9 which resulted in a pause of the job redesign rollout. In order to proceed with a stated goal of the DWSD Director in 2012 to achieve financial sustainability, the Department maintained a hiring freeze, implemented staff reductions, and achieved reduction in staffing levels primarily through natural attrition.

With the City's exit from bankruptcy in December 2014, the job redesign rollout is now underway. The Director of Organizational Development (OD) will address numerous compensation and labor considerations at the GLWA Board Workshop on April 1, 2015. OD is presently in the midst of filling hundreds of new positions. As the data tracking is largely manual, additional time is needed to compile a placement optimization report for the GLWA Audit Committee. Ways in which the budget is impacted

by changes in the personnel area include the following: promotional compensation adjustments, restoration of prior City-wide wage reductions of 10% if employee is selected for a newly designed job, filling vacancies, ongoing attrition, and selective terminations. The FY 2016 budget is based on a precise calculation of number and type of positions presuming the OD and their internal customers is able to perform 100% rollout of the new job design by July 1, 2015.

For purposes of background, the following two charts are presented.

Chart 1: Attrition Schedule, July 2011 through February 2015

- Highlights the **decreased staffing level from 2,102 in July 2011 to 1,372 in February 2015 or 35%**. It should be noted that the budgeted staffing level for FY 2016 is 1,358.

Chart 2: Cumulative Annual Savings reflect the cumulative dollar amount of the staffing reduction.

- Highlights achieving **\$49 million attrition in annual savings to date since July 2011**. It should be noted that the dollar savings is based on the lower, post Ch. 9 direct benefit costs consistent with the FY 2016 budget. Average wage is \$47,149/year plus the direct cost of fringe benefits of \$19,770 for a combined total of \$66,920 including benefits.

Chart 1: Attrition Schedule, July 2011 through February 2015

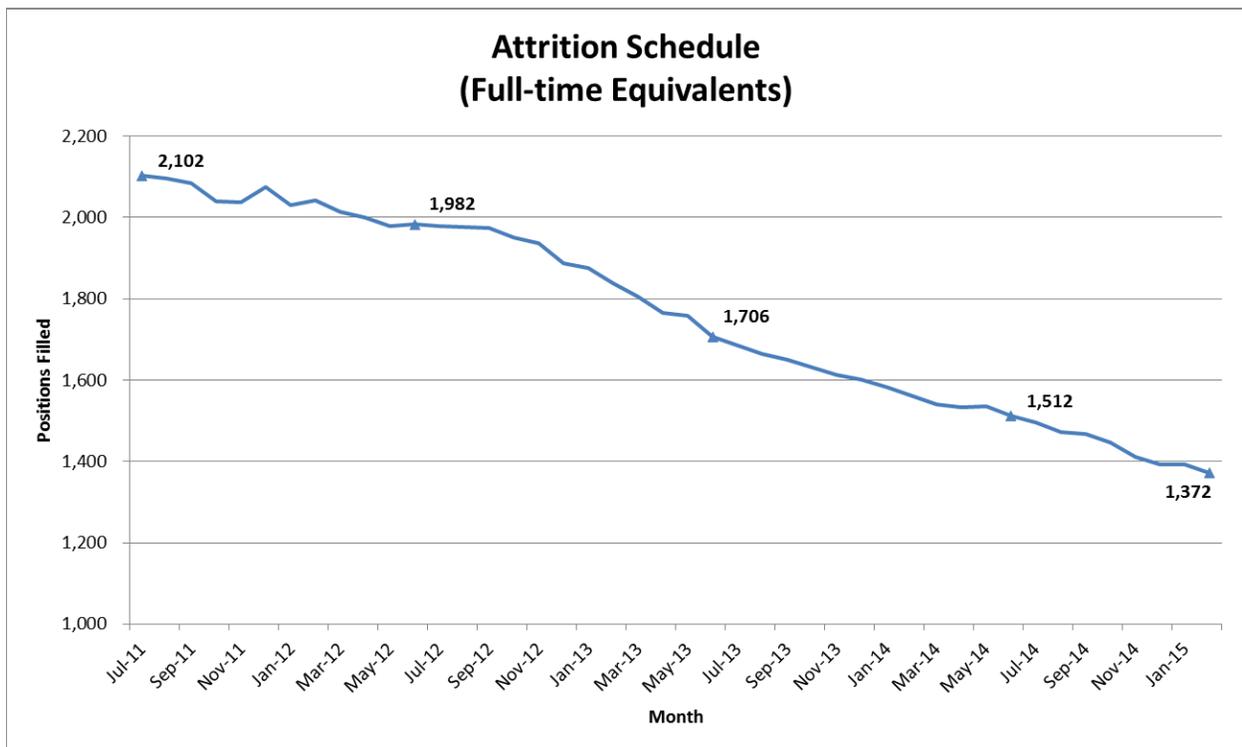
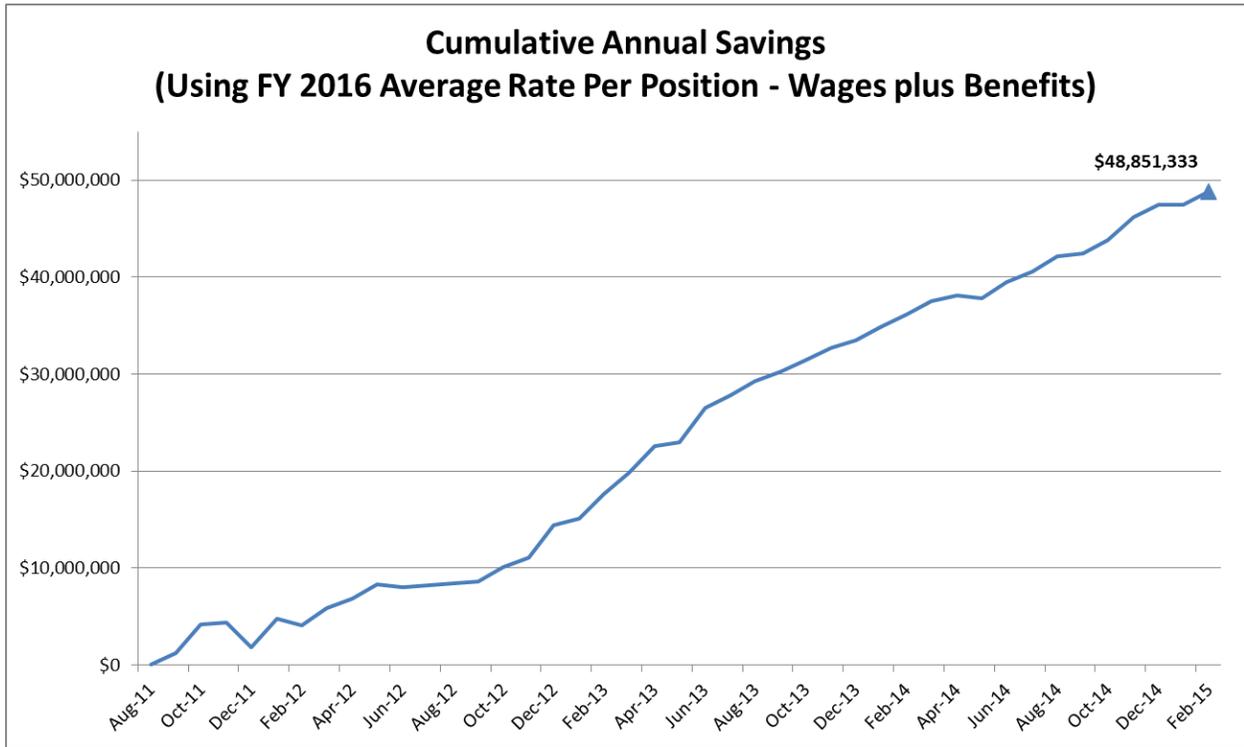


Chart 2: Cumulative Annual Savings





Great Lakes Water Authority
Audit Committee Report
April 1, 2015

Date: March 30, 2015

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA
Chief Financial Officer, Detroit Water & Sewerage Department

Re: Financial Operations Benchmarking (Quick Wins)

In December 2014, the City of Detroit Water & Sewerage Department (DWSD) received a benchmarking report as an operator of water and wastewater systems. This report identified "Quick Wins" and related, excepted pages are attached. I will provide a verbal update at the Audit Committee meeting on items where the DWSD Financial Services Group (FSG) has been working with its internal customers and vendors to address these cost control and service enhancement measures.

Also attached is a detailed report from the Finance Unit and Procurement Unit within FSG on the status of unit specific recommendations.

A GLWA Board Workshop is planned within the next 30 days for the entire Board to receive an update from all DWSD divisions.

Further, Veolia recognizes that providing security services can be accomplished by a security program that is resourced to protect the sites from outside intrusion and criminal activity, as well as be consistent with U.S. Environmental Protection Agency (EPA) guidelines concerning critical facility security.

As part of GLWA and DWSD's overall security program, Veolia recommends physical security measures at all facilities, in conjunction with assessing H&S procedural issues for effectiveness with proper enforcement from management.

16. Communications & Public Affairs: Continue Building Towards the Highest Levels of Industry Best Practices

Veolia's SMEs recognize the many initiatives already underway with Communications & Public Affairs and encourage DWSD and GLWA to strive for best practices in this area. While some disconnect exists between employees and the inadequacy of communication, many of the same tools and processes that would be proposed by Veolia are already in place.

In fact, Veolia's assessment found that there has been a marked improvement in all aspects of communication in the last two years.

Moving Forward:

Implementation Plan

This Peer Review Report has identified the clear potential for GLWA and DWSD to invest in its people and assets in order to improve core operations.

Implementing the recommendations would help reach the goal of becoming a more effective functional and business-oriented enterprise.

Veolia is confident that this program of recommendations has the potential to transform how DWSD and GLWA operate to deliver cost savings to its retail and wholesale customers, while improving both compliance and the level of service quality.

Quick Wins

As stated throughout this Peer Review Report, Veolia's overarching recommendations would be: investing in people and assets to stabilize the organization and systems.

Veolia recognizes that DWSD is working on programs to address these areas, but would suggest a new focus be brought to these two very important priorities.

With this understanding, Veolia would propose to start the initiatives outlined on Table ES-4, which follows, immediately in order to seek quick wins that unlock the highest savings impact. These are the types of initiatives that are procedural

EXECUTIVE SUMMARY

in nature, involve treatment process changes and/or require little or no capital investment.

Table ES-4. Proposed Immediate Initiatives - Quick Wins

Facility/Operation	Proposed Initiative	Efficiency Impact
Water Treatment Plants	<ul style="list-style-type: none"> Optimize chemical feeds Replace alum with aluminum chlorohydrate or polyaluminum chloride Optimize filter backwash cycles Increase process automation 	\$2.3 million
Wastewater Treatment Plant	<ul style="list-style-type: none"> Optimize chemical feeds Reconfigure number of aeration decks Optimize pure oxygen usage In-sourcing hazard response (HAZMAT) support 	\$1.8 million
Procurement	<ul style="list-style-type: none"> Eliminate or renegotiate service contracts Chemical unit price renegotiation Optimize payment terms 	\$3.3 million
Energy	<ul style="list-style-type: none"> Renegotiate rates with power provider 	\$1.8 million
Network Maintenance	<ul style="list-style-type: none"> GPS tracking for all vehicles 	\$0.2 million
<p><u>Note:</u> (1) Subsequent years' savings will typically be higher due to full-year of implementation and time needed to affect change (training; SOPs; capital improvements). As "quick wins" Veolia is presenting an estimate of Year 1 savings.</p>		

In order to support the implementation of these cost-savings efficiencies in the most timely manner possible, Veolia would recommend that the following efforts be initiated at the outset:

1. Conducting a criticality assessment of assets at the wastewater treatment plant immediately. In work to date Veolia saw equipment that appeared to be of a critical nature that could benefit from the condition assessment that may eliminate failures from occurring. This criticality assessment would also provide the detail necessary to drive a proper Asset Management Program and CIP.
2. Developing Process Control Management Plans (PCMPs) at the WWTP, as well as at all WTPs. Implementing operational changes with low capital

EXECUTIVE SUMMARY

expenditure requirements, such as the optimization of chemical feed rates at all treatment plants.

3. Prioritizing and implementing energy efficiency initiatives, with the first steps being to hire an Energy Program Manager and establishing a contract with DTE.
4. Assessing procurement policies and existing contracts, in order to streamline practices and eliminate unnecessary contract services.
5. Reallocating maintenance staff in order to address the significant needs at the facilities. This would include training and organizational revisions that may result in reductions in contracted services, which could result in considerable savings while also improving the condition of the assets.
6. Reassessing major IT, GIS and WAM initiatives, which may involve slowing down implementation until there is certainty that the direction is sound and implementation is on the right track. This is a long-term investment that would form the foundation of the CMMS, and so it is important that the system is being populated with data with integrity.
7. Implementing fast response teams for sinkholes, water main breaks, fire hydrants out of service, and missing manhole covers. (This will be discussed more fully in the separate Retail Transition Plan Amendment Report).

Moving Forward

Veolia understands the unique challenges that DWSD and the City of Detroit have faced in recent years, and the spirit of this report is one that is focused on driving towards solutions – solutions that consider the work that has been done to date, and which look to derive benefits and added knowledge from the global base of operations experience that Veolia offers.

The message that Veolia hopes to convey in the report that follows is one of looking to solutions that will address the immediate needs, and lay the groundwork to bringing the DWSD back to greatness.

Veolia has also looked to the future, and the opportunity that will be provided by the new service structure which will include the GWLA and the DWSD working together to meet the water and wastewater needs of the citizens of Detroit.

This forms the basis of the recommended approaches outlined.

Financial Services Group - Status on Veolia Recommendations, 2.5.2015

Veolia Recommendation	Page Ref. No.	Key Person	Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?
Finance and Budgeting			
A – Finance Function #1: Performance Recording and Monitoring	3.H-1		
<i>Reconfigure the financial closing process in order to close the books in a timely and accurate manner</i>	3.H-2		
<ul style="list-style-type: none"> Establish a monthly closing checklist to control the material tasks which need to be completed before the books are closed. 	3.H-2	Sommers	Agreed & In-Process. Current City systems are not closed monthly (City sub-systems are closed). Focusing on a new ERP system & implementing best practices.
<ul style="list-style-type: none"> Create a definitive closing schedule and timeline, and distribute and communicate throughout the organization. 	3.H-2	Sommers	Agreed & In-Process. Current City systems are not closed monthly (City sub-systems are closed). Focusing on a new ERP system & implementing best practices.
<ul style="list-style-type: none"> Balance Sheet reconciliations to be completed and tied-out monthly. 	3.H-3	Sommers	Agreed & In-Process. Current City systems are not closed monthly (City sub-systems are closed). Focusing on a new ERP system & implementing best practices.
<ul style="list-style-type: none"> Develop a process to identify and record accruals. 	3.H-3	Sommers	Agreed & In-Process. Current City systems are not closed monthly (City sub-systems are closed). Focusing on a new ERP system & implementing best practices.
<ul style="list-style-type: none"> Develop rapport between Operations and Finance teams. 	3.H-3	Sommers	Cross-functional meetings have been held to address various concerns. In addition, The LEAN process has been used to address project capitalizations and plans are to expand use of the LEAN in the future.
<ul style="list-style-type: none"> Establish Consistent procedures and practices to allow for a controls based audit. 	3.H-3	Sommers	Agreed & In-Process. Current City systems are not closed monthly (City sub-systems are closed). Focusing on a new ERP system & implementing best practices.
<ul style="list-style-type: none"> During the initial transition phase, perform a gap analysis to identify areas that may inhibit the current Finance team from closing the books monthly and following the above processes. 	3.H-4	Sommers	Agreed & previously performed on a high level. Used during the ERP requirements development process.
<i>Develop a robust financial reporting process to communicate monthly results to internal and external stakeholders.</i>	3.H-4		
<ul style="list-style-type: none"> Identify Key Performance Indicators (KPIs) to be used to evaluate the performance of the Business. 	3.H-4	Sommers	Agreed. KPIs are currently reported to the BOWC monthly. As a new ERP gets implemented reporting abilities will be more robust.
<ul style="list-style-type: none"> Reinforce the monthly financial reporting package distributed and communicated to the Senior 	3.H-4	Sommers	Agreed. As a new ERP gets implemented along with best practices DWSD reporting abilities will be more robust.

Veolia Recommendation	Page Ref. No.	Key Person	Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?
Management of the DWSD and GLWA and the Board of Water Control (BOWC)			
<ul style="list-style-type: none"> Financial reports, both internally and externally, must tie into the ERP data. 	3.H-5	Sommers	Agreed. As a new ERP gets implemented along with best practices DWSD reporting abilities will be more robust.
<ul style="list-style-type: none"> Departmental and Project reports issued monthly with analysis. 	3.H-5	Sommers	Agreed. As a new ERP gets implemented along with best practices DWSD reporting abilities will be more robust.
<i>Revamp the controls around the billing and cash collections process</i>	3.H-5		
<ul style="list-style-type: none"> Cash is the lifeline of the “company”so controls surrounding this process must be robust 	3.H-5	Savitskie	DWSD has the foundation of a well-controlled cash receiving process through its Inovah and enQuesta systems. The Finance Transformation team has devoted resources to billing and cash receipts and is working on numerous projects to improve cash control.
<i>Implement a new ERP reporting tool, which has integrated modules and allows the organization to operate in an efficient and effective manner.</i>	3.H-6		
<ul style="list-style-type: none"> An integrated ERP suite is crucial to equip the Finance team with the tools needed to report results accurately and ensure an effective control environment. 	3.H-6	Sommers	Agreed. ERP requirements were developed prior to the Veolia evaluation. An RFP for an ERP suite has been drafted. In addition, DWSD staff are actively participating in the Oracle Fusion implementation meetings with the City, while pursuing an independent system for DWSD.
<ul style="list-style-type: none"> Before any ERP implementation is considered, both internal and external resources need to be evaluated. 	3.H-6	Sommers	Agreed DWSD has done an initial valuation of ERP implementation resource needs.
<ul style="list-style-type: none"> Automation of systems will be key to achieving the desired efficiency and savings. 	3.H-6	Sommers	Agreed. Efforts have been underway to pursue a new ERP for DWSD independent of the City, while still supporting the City’s efforts on implementing Oracle Fusion.
<ul style="list-style-type: none"> Added control environment. 	3.H-6	Sommers	Agreed. This is being addressed thru a new ERP and developing best practice policies and procedures.
B. Finance Function #2: Rates and Debt	3.H-7		
<i>Rates - Improve process by which rate cases are made and debt is issued</i>			
<ul style="list-style-type: none"> Implementing a new ERP system to increase confidence in the results, eliminate the need for estimates and adjustments, and provide a trail to allow for variance analysis (This was further developed in the systems section of this report 	3.H-7	Bateson Wheatley Sommers	Agreed. We have developed requirements to be issued in an RFP for a new ERP for DWSD independent of the City. An ERP system properly configured to DWSD’s needs will contribute greatly to having more timely and relevant data to use in the rate development strategy

Veolia Recommendation	Page Ref. No.	Key Person	Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?
<p>above).</p> <ul style="list-style-type: none"> Formalizing the key financial principles that DWSD needs to rely on. Rate stabilization requirements based on historical short term issues. Development of a long term strategy for the fixed, variable (volume) and potential pass-through components of the utility's revenue. Development of a strategy to address the needs of DWSD's customer classes, including industrial, commercial and residential. Development of a strategy related to consumption and/or conservation. Developing the process by which the rate model is supported by a clear chain of work papers and systems output: Link the rate model to the systems improvements discussed elsewhere in this report. Strengthen management's ability to argue the rate case in front of decision makers and defend rate increases in front of all customers and community stakeholders. Developing a DWSD-owned rate model that is transparent to management and customers. 			
<p><i>Debt Management - Record keeping of the CIP projects funded by bond proceeds must be improved to support required IRS arbitrage calculations</i></p>	3.H-8		
<ul style="list-style-type: none"> The process to track the bond series and issuances, along with details of the specific bonds, needs to be formalized, preferably in an electronic system. Use of the proceeds needs to be tracked very carefully. In addition, there needs to be interaction and communication with the engineering and project management staffs to project when these proceeds are needed, to allow for cash forecasting and following the investment policy. This will become particularly important in the bifurcation of Retail vs. Wholesale funding. Implementing a tracking system of the bond 	3.H-8	Wheatley	<p>1st bullet point- Need to determine if an "out of the box" software program needs to be used or if we can achieve the same outcome with Excel. My initial thought is Excel can be used.</p> <p>2nd bullet point- Develop a bond issue specific spend down template which will identify what projects are included, how long construction will take and develop the monthly anticipated draws on the bond proceeds. Once the template is filled out, we will need to track the actual progress versus the projected amounts. This template will also be used for Arbitrage calculations/monitoring as well as cash flow/ investment</p>

Veolia Recommendation	Page Ref. No.	Key Person	Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?
<p>issuances and series, including the covenants and other details, and appoint a person responsible for the debt.</p> <ul style="list-style-type: none"> • Preservation of a good relationship with the trustee is important to ensure open communications on status and opportunities to reduce costs. • Reinforcing communications with engineering and project management on the status of capital improvement program (CIP) projects in order to allow cash forecasting and positive investment opportunities. These open communications will also provide insight to potential available funds from under spending for other projects, and cash needs projected into the future (to factor into the rate cases). • Providing for the long term planning of new capital projects, in order to allow for cash needs in the rate cases, and give sustainable and justifiable projections to rate payers and lenders. • Initiating return on investment calculations to justify capital investments. 			<p>purposes.</p> <p>3rd bullet point- Develop a “checklist” of important bond issue information. This template will identify the parties that are responsible for completing or updating each item.</p> <p>4th bullet point- agreed</p> <p>5th bullet point- For each new project/bond issue, assign a member from the finance, engineering and project management teams to work as the “project team.” Each team will be responsible for developing project amounts, time tables and construction periods. This will help in simplifying the long term cash planning and financing schedules.</p> <p>6th bullet point- For long term planning, possibly develop a rate projection schedule which incorporates budget and CIP components which would give a general indication of effects on retail/wholesale rates given changes to proposed projects.</p> <p>7th bullet point- when should this calculation be done?</p>
C. Finance Function #3: Internal Controls (including spend control)	3.H-9		
<ul style="list-style-type: none"> • Regulatory campaign management (compliance with relevant accounting standards, fraud reporting) • Follow-up and improvement of processes (control reviews, monitoring action plans) • Creation of a consistent framework for the implementation of group procedures. 	3.H-9	Sommers	An Internal Audit function is planned for the upcoming fiscal year. This function will include organizational risk assessments and internal control design, and policies and procedures.

Procurement Division Status on Veolia Recommendations, 2.4.2015

Veolia Recommendation	Page Ref. No.	Procurement Division Status <small>Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?</small>																				
Cost Savings (Reductions, Avoidance, Containment)																						
Achieve Support Functions Savings estimated below <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: center;">FY</th> <th style="text-align: center;">Total Savings</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2015</td> <td style="text-align: right;">\$ 3,339,766</td> </tr> <tr> <td style="text-align: center;">2016</td> <td style="text-align: right;">\$13,039,870</td> </tr> <tr> <td style="text-align: center;">2017</td> <td style="text-align: right;">\$14,206,417</td> </tr> <tr> <td style="text-align: center;">2018</td> <td style="text-align: right;">\$14,243,761</td> </tr> <tr> <td style="text-align: center;">2019</td> <td style="text-align: right;">\$14,875,331</td> </tr> </tbody> </table>	FY	Total Savings	2015	\$ 3,339,766	2016	\$13,039,870	2017	\$14,206,417	2018	\$14,243,761	2019	\$14,875,331	ES-6, 4-3 Continue to examine total value chain applying lean and value engineering/value analysis (VA/VE) methodologies to identify direct savings, cost containment, revenue generation opportunities; <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: center;">FY</th> <th style="text-align: center;">Realized Savings</th> <th style="text-align: center;">Forecast Savings</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2014</td> <td style="text-align: right;">\$ 1,761,000</td> <td></td> </tr> <tr> <td style="text-align: center;">2015</td> <td></td> <td style="text-align: right;">\$ 1,650,000+</td> </tr> </tbody> </table>	FY	Realized Savings	Forecast Savings	2014	\$ 1,761,000		2015		\$ 1,650,000+
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2015		\$ 1,650,000+																				
Achieve working capital gains through modified payment terms and early pay discounts	ES-6, 4-3	In progress																				
Installation of fleet-wide GPS tracking system accounts for 100% of maintenance management savings (fuel and staff productivity) <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: center;">FY</th> <th style="text-align: center;">Total Savings</th> <th style="text-align: center;">Cap Req'd</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2015</td> <td style="text-align: right;">\$108,000-\$307,000</td> <td style="text-align: right;">\$ 90,000</td> </tr> </tbody> </table>	FY	Total Savings	Cap Req'd	2015	\$108,000-\$307,000	\$ 90,000	ES-7, 4-3	Identified Top 7 Fleet Navigation System suppliers to benchmark and evaluate systems pending cost/benefit analysis contingent upon completion of physical inventory of fleet stock planned by Mar 2015														
FY	Total Savings	Cap Req'd																				
2015	\$108,000-\$307,000	\$ 90,000																				
Chemical Purchases ~ \$24 mil Total Spend 1. Conduct a specifications review to determine if the correct minimum product is being purchased using the most optimal transportation modes	3.J-40 3.J-43	<table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: center;">Commodity</th> <th style="text-align: center;">FY 2014 Savings</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Alum</td> <td style="text-align: right;">\$ 90,000</td> </tr> <tr> <td style="text-align: center;">Ferric Chloride</td> <td style="text-align: right;">\$ TBD</td> </tr> <tr> <td style="text-align: center;">Liquid Chlorine</td> <td style="text-align: right;">\$ 67,000</td> </tr> </tbody> </table> In progress	Commodity	FY 2014 Savings	Alum	\$ 90,000	Ferric Chloride	\$ TBD	Liquid Chlorine	\$ 67,000												
Commodity	FY 2014 Savings																					
Alum	\$ 90,000																					
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Liquid Chlorine	\$ 67,000																					
2. Track negotiated pricing against the commodities market in order to identify price reduction opportunities and identify when the existing pricing is able to “beat the market” showing cost avoidance	3.J-43	Plan to collect competitive intelligence																				
3. Improve chemical procurement (RFP vs. RFQ0); correct product specifications; tender chemicals as a RFP, rather than a RFQ, in order to open up negotiation opportunities	ES-6 3.J-43 4-3	In progress																				
Equipment Rentals ~ \$0.9 mil Total Spend 1. Conduct a specifications review to determine if the correct product is being rented	3.J-41 3.J-43	In progress																				
2. Tender equipment rental as an RFP, rather than as an RFQ, in order to open up negotiation opportunities and improve the competition from national suppliers trying to capture local market they exist in (awarded on daily rates vs. weekly rates)	3.J-44	In progress																				
3. Analyze rent versus buy opportunities and complete Total Cost of Ownership (TCO) analysis on all cost line items (fees,	3.J-44	Incorporate “rent versus buy” analysis requirements for Requestors of requisitions with Procurement to assist as necessary due to resource																				

Veolia Recommendation	Page Ref. No.	Procurement Division Status Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?													
taxes, title, charges, training, etc.) for better determination.		constraints													
Contracted & Professional Services ~ \$112 mil Total Spend; Pursue significant reduction in contracted services , especially those related to labor support: <ol style="list-style-type: none"> a. Construction & Repair Services b. Professional & Consulting Services ~ \$33.8 mil Total Spend-38 Suppliers	ES-6 3.J-41 3.J-42 3.J-44 43	In progress with initial focus on As-Needed, Engineering Services and Skilled Trades contracts													
State of Michigan requirements for green infrastructure – 2 contracts ~ \$15.6 mil <ol style="list-style-type: none"> a. Fuel (retail and bulk) b. MRO/operational supplies and spare parts c. Fleet & Rolling Stock 	3.J-43	Include in current life cycle cost analysis of fuel management system and fleet management													
Inventory/Asset Management & Oracle WAM															
Improve inventory control and management practices	ES-19	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #202020; color: white;">Functional Area</th> <th style="background-color: #202020; color: white;"># KPIs</th> </tr> </thead> <tbody> <tr> <td>Procurement</td> <td>14</td> </tr> <tr> <td>Supplier Performance</td> <td>6</td> </tr> <tr> <td>Materials Management</td> <td>8</td> </tr> <tr> <td>Contract Administration</td> <td>5</td> </tr> <tr> <td>Grants Management</td> <td>8</td> </tr> </tbody> </table>		Functional Area	# KPIs	Procurement	14	Supplier Performance	6	Materials Management	8	Contract Administration	5	Grants Management	8
Functional Area	# KPIs														
Procurement	14														
Supplier Performance	6														
Materials Management	8														
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Improve inventory security <ol style="list-style-type: none"> a. Keep inventory access points limited and guarded by storekeeper b. Consider adding surveillance and related signage 	3.J-39	In progress (asset tags); implementation of RFID or barcoding is hampered due to hardware constraints													
Reevaluate the current WAM Implementation of inventory and work order management modules in the absence of solid asset hierarchy methodology and population of system:	ES-12 3.D-3-9 3.J-17 3.J-21	In progress													
1. Field verify all assets and adopt standard naming conventions	ES-12 3.D-7	In progress													
2. Ensure that necessary information to make the desired repair and replacement (R&R) decisions is available	ES-12 3.D-7	Contingent upon integration of Asset Management module													
3. Establish business rules, workflows, key performance indicators (KPI) and metrics	ES-12 3.D-7	In progress													
4. Develop training program for CMMS use	ES-12 3.D-7	Training plans in development													
5. Develop maintenance job plans for critical use assets	ES-12 3.D-7	Contingent upon integration of Asset Management module													
6. Update the current Oracle WAM configuration	3.D-3	In progress													

Veolia Recommendation	Page Ref. No.	Procurement Division Status Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?													
	3.D-6														
7. Standardize workflow and conduct training	3.D-7	Plans in development to standardize documents and address training													
8. Update WAM asset inventory and standardize the hierarchy structure	3.D-6	Determine requirements to pursue Asset Management module													
9. Standardize WAM business rules and workflow	3.D-3 3.D-7	In progress													
10. Train the maintenance planners, schedulers and end users	3.D-3 3.D-9	Training plans in development													
Develop and implement surplus assets program	3.J-39	Pursue appraisal services for assets pursuant to court order													
Fleet Management															
Update fleet and heavy equipment maintenance policies and systems	3.D-11														
Implement GPS fleet management system	3.D-3 3.D-11	Sourcing and implementation pending cost/benefit analysis contingent upon completion of physical inventory of fleet stock planned by Mar 2015													
Implement fleet gas card program	3.D-12	Sourcing and implementation contingent upon life cycle cost analysis of fuel management system planned by Mar 2015													
Performance Reporting & Continuous Improvement															
Determine appropriate Key performance indicators (KPIs)	ES-13 4-5	<table border="1"> <thead> <tr> <th data-bbox="1312 776 1648 812">Functional Area</th> <th data-bbox="1648 776 1801 812"># KPIs</th> </tr> </thead> <tbody> <tr> <td data-bbox="1312 812 1648 841">Procurement</td> <td data-bbox="1648 812 1801 841">14</td> </tr> <tr> <td data-bbox="1312 841 1648 870">Supplier Performance</td> <td data-bbox="1648 841 1801 870">6</td> </tr> <tr> <td data-bbox="1312 870 1648 899">Materials Management</td> <td data-bbox="1648 870 1801 899">8</td> </tr> <tr> <td data-bbox="1312 899 1648 928">Contract Administration</td> <td data-bbox="1648 899 1801 928">5</td> </tr> <tr> <td data-bbox="1312 928 1648 971">Grants Management</td> <td data-bbox="1648 928 1801 971">8</td> </tr> </tbody> </table>		Functional Area	# KPIs	Procurement	14	Supplier Performance	6	Materials Management	8	Contract Administration	5	Grants Management	8
		Functional Area	# KPIs												
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Develop robust reporting processes to communicate monthly results	ES-13	Manual reports will be posted on intranet portal by April 2015 contingent on resource and system constraints until implementation of automated systems; Deploy 6-Certified Greenbelts within department on Lean initiatives by April 2015													
Implement new enterprise resource planning (ERP) system with integrated modules	ES-13	Under evaluation													
Establish Scorecard in form of a computer dashboard or infographic accessible to all staff	4-5	Manual scorecard will be posted on intranet portal by April 2015 contingent upon resource and system constraints until implementation of automated systems													
Eliminate unnecessary minimum cycle times	3.J-37	In progress													
Increase purchasing threshold for recurring expenses requiring Board approval	3.J-37	Subject to administrative court order and contingent upon Memorandum of Understanding (MOU) and Service Level Agreement (SLA) with bifurcation of GLWA and DWSD-R													
Improve clearance processes	3.J-38	Pursuing Inter-Agency Data Sharing Agreement (IDS) between City of													

Veolia Recommendation	Page Ref. No.	Procurement Division Status Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?
Consolidate assigned staff to a portion of one FTE Transfer clearance responsibilities to bidder		Detroit and DWSD with target implementation by Mar 2015
Improve requisition validation process	3.J-38 3.J-39	Contingent upon ERP/CMMS and workflow constraints
Organization Realignment		
Reorganize Finance function to new structure	ES-14	Undergoing consolidation of Procurement, Contracts & Grants and Materials Management along with restructure for launch by Mar 2015
Reduce or repurpose 21 FTEs	3.J-28 3.J-30 3.J-31	In progress with restructure
Streamline organization and processes to free up resources for strategic sourcing, supplier management and internal customer service	ES-18 ES-19 4-4	In progress with restructure and evaluation of alternate delivery methods and eProcurement technologies to address constraints
Streamline and map purchasing processes and touch points to reduce touch points	3.J-39	In progress to implement best practices and workflow technologies as system functionality becomes available
Center processes on performance and align with Operations to build true partnership between procurement and operations	ES-19	In progress to implement with restructure by Mar 2015; define functions in MOU and SLA that take effect in July 2015
Clarify job descriptions to improve performance metrics	3.J-28	In progress to implement with restructure by Mar 2015 and include cross training plans
Procurement Policies & Strategies		
Develop and integrate sourcing and pricing strategies in active spend categories to improve savings opportunities	ES-19	Development of interim GLWA Purchasing Policies & Procedures by Feb 2015; DWSD-R Policies & Procedures will be subject to MOU & SLA; benchmarking AIA, EJCDC and ATC to update contract terms & conditions as necessary and include assignment clause
Conduct market research to increase competition	ES-19	In progress to gather market intelligence
Categorize tangible spend categories to create cost savings	3.J-32	In progress to incorporate spend analytics, category management, commodities, etc.
Optimize use of RFPs and reduce use of RFQs	3.J-32	In progress
Eliminate acceptance of post-base term price increases by suppliers	3.J-33	In progress
Adopt payment term negotiations and unlock savings for working capital	3.J-33	In progress
Energy Procurement/Management		
Prioritize and implement energy efficiency initiative; competitively procure electricity and gas commodity suppliers and incentive programs	ES-26 3.F-1 3.F-4 4-4	Leverage Certified Energy Managers within DWSD to evaluate energy usage/utilization and requirements and consult with DTE for assistance with energy audits
Establish Energy Program Manager position and consider position	ES-26	Leverage Certified Energy Managers within DWSD

Veolia Recommendation	Page Ref. No.	Procurement Division Status Are we doing this? Is it in Progress? When Started? Planned? If not planned, why?
reporting to COO	3.F-1 4-4	
Develop Energy Management Program that can be used to drive the decision-making process for conservation and cost improvements and establish a contract with DTE	3.C-3	Leverage Certified Energy Managers within DWSD to evaluate energy usage/utilization and assess investments (ie. municipal aggregation, cogeneration, etc)
Leveraged Purchases		
Improve use of GSA Contracts and Cooperative Purchases to reduce purchasing time-frames and leverage volumes	3.J-32 3.J-33	Incorporate Cooperative Purchasing criteria in contract approval process; post list of Cooperative Purchasing Organization on intranet portal by Mar 2015
Supply Management & Development		
Implementation of "Just-in time" (JIT) approach	3.J-36	In progress to identify Vendor Managed Inventory and Consolidated Logistics (LTL) opportunities by April 2015
Quarterly Business Reviews with Key Suppliers	3.J-36	Launched Supplier Quarterly Business Review (QBR) process in Dec 2014 with initial focus on outsourced services on "As-Needed" contracts
Competitive Benchmarks		
Require competitive bidding and minimum of two bids for small purchases	3.J-38	In progress to review Detroit-based equalization requirements and small purchase practices
Ensure that categorization of advertised Bid Opportunities do not indicate purchasing thresholds	3.C-39	In progress



Great Lakes Water Authority
Audit Committee Report
April 1, 2015

Date: March 30, 2015

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA
Chief Financial Officer, Detroit Water & Sewerage Department

Re: Bifurcation – Net Budget Neutral Policy

The Memorandum of Understanding (MOU) that provided for the creation of the Great Lakes Water Authority (GLWA) also provides a framework the creation of what is commonly referred to as the City of Detroit Water & Sewerage Department Retail System (DWSD-R). Conceptually, the scope DWSD-R is described in the MOU.

“The City shall have the right to continue to operate and retain employees to operate, maintain, repair and improve the local system in Detroit including capital improvements and repairs, and billing and collection services, and any other services or may contract with the Authority or another third party for all or a portion of those or other functions.”

As the parties to the MOU work towards the stand-up of GLWA and DWSD-R, it becomes evident that there is some loss of economies of scale. The optimal outcome is to offset those losses with other efficiencies and opportunities. Given that the FY 2016 Budget and Schedule of Charges have recently been adopted by the Board of Water Commissioners, there is merit to the GLWA adopting a policy or guiding statement for the study groups who are diligently working on the bifurcation analysis. The following is a proposed statement/policy.

The FY 2016 budget and schedule of charges was fixed once it was adopted by the Board of Water Commissioners on March 11, 2015. That budget is the ceiling which cannot be exceeded. The FY 2016 budget, therefore, is the "baseline" budget for measuring any cost reductions, efficiencies, or bifurcation proposals. To the extent that any bifurcation analysis results in an increase in cost, it must be offset by a reduction within the same cost pool (i.e. retail, suburban, or common-to-all cost pool). For this reason, many bifurcation preferences will need to wait until FY 2017 (or later) if there is a corresponding increase in cost unless there is a demonstrated positive cost/benefit. To the extent that there is underperformance of revenues in FY 2016, the net budget baseline will be decreased. To the extent that there is over performance of revenues in FY 2016, the revenue financed capital reserve will be increased.

For reference, a copy of the budget summary adopted by the BOWC is attached along with a working copy of the cost pool allocations, subject to review by the GLWA/DWSD-R Coordinating Group is attached.

The firm of Plante & Moran has been engaged by GLWA to provide an independent assessment of the FY 2016 baseline budget and five year forecast. It is anticipated that the P&M scope may be amended to assess the feasibility of the Study Group recommendations for bifurcation.

NOTICE OF CONTINUED PUBLIC HEARING

**BUDGETED PROGRAMS, SERVICES, AND ACTIVITIES
DETROIT WATER AND SEWERAGE DEPARTMENT**

Notice is hereby given that the Board of Water Commissioners will hold a Public Hearing regarding budgeted programs, services and activities of the Detroit Water and Sewerage Department for the proposed budget by the Detroit Water and Sewerage Department for Fiscal Year 2015-16.

DATE: March 11, 2015
TIME: 1:00 p.m.
PLACE: Water Board Building, 5th Floor Board Room
735 Randolph
Detroit, Michigan 48226

DWSD Service Functions

DWSD provides two services to communities in Southeast Michigan; delivery of safe, potable drinking water and the collection, treatment, and disposal of wastewater. Residents and businesses in the City of Detroit are served on a retail basis. Customers outside of the city of Detroit are primarily served on a Suburban Wholesale basis through service agreements.

DWSD FISCAL YEAR 2015-16 FINANCIAL PLAN SUMMARY (IN \$MILLIONS)

Categories	Water	Sewerage	Combined
Revenues:	\$403.9	\$529.4	\$ 933.3
Revenue Requirements:			
Operation and Maintenance Expense	\$162.8	\$216.7	\$379.5
Debt Service	183.1	239.4	422.5
Fixed Non-Operating Expense	10.3	14.0	24.3
Revenue Financed Capital and Reserves	47.7	59.3	107.0
Total Revenue Requirements	\$403.9	\$529.4	\$933.3

Operation and Maintenance Budget Summary

The combined total Operation and Maintenance Budget totals \$379.5 million.

- Water operating budget - \$162.8 million.
- Sewerage operating budget - \$216.7 million.

A copy of the proposed budget can be found on the Detroit Water and Sewerage Department's website, www.dwsd.org.

FY 2016 BUDGET Summary

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	Water Baseline Data			Sewer Baseline Data			Combined Baseline Data			
	<u>GLWA</u> <i>pre-split</i>	<u>DWSD-R</u> <i>pre-split</i>	<u>TOTAL</u> <u>SYSTEM</u> <i>pre-split</i>	<u>GLWA</u> <i>pre-split</i>	<u>DWSD-R</u> <i>pre-split</i>	<u>TOTAL</u> <u>SYSTEM</u> <i>pre-split</i>	<u>GLWA</u> <i>pre-split</i>	<u>DWSD-R</u> <i>pre-split</i>	<u>TOTAL</u> <u>SYSTEM</u> <i>pre-split</i>	
1	Budgeted Operating Expenses	107,576,200	44,889,200	152,465,400	169,095,100	33,898,700	202,993,800	276,671,300	78,787,900	355,459,200
2	Operating Pension Reimbursement	6,037,100	4,262,900	10,300,000	10,838,400	2,861,600	13,700,000	16,875,500	7,124,500	24,000,000
3	Total Operation and Maintenance	113,613,300	49,152,100	162,765,400	179,933,500	36,760,300	216,693,800	293,546,800	85,912,400	379,459,200
4	<i>DWSD-R Debt Svc Pmt to GLWA</i>	<i>(28,123,900)</i>	<i>28,123,900</i>	<i>0</i>	<i>(24,999,000)</i>	<i>24,999,000</i>	<i>0</i>	<i>(53,122,900)</i>	<i>53,122,900</i>	<i>0</i>
5	GLWA Debt Service	183,065,600	0	183,065,600	239,442,400	0	239,442,400	422,508,000	0	422,508,000
6	Effective Debt Service	154,941,700	28,123,900	183,065,600	214,443,400	24,999,000	239,442,400	369,385,100	53,122,900	422,508,000
	<u>Fixed Non-Operating Expenses</u>									
7	Non-Op Pension Reimburse	5,392,300	3,807,700	9,200,000	9,651,700	2,548,300	12,200,000	15,044,000	6,356,000	21,400,000
8	B Note Payments	643,100	454,100	1,097,200	1,444,600	381,400	1,826,000	2,087,700	835,500	2,923,200
9	Professional Svc BK Fees	0	0	0	0	0	0	0	0	0
10	Subtotal Fixed Non-Op Expenses	6,035,400	4,261,800	10,297,200	11,096,300	2,929,700	14,026,000	17,131,700	7,191,500	24,323,200
11	Lease Payment	22,500,000	0	22,500,000	27,500,000	0	27,500,000	50,000,000	0	50,000,000
12	WRAP Deposit	1,981,200	0	1,981,200	2,610,800	0	2,610,800	4,592,000	0	4,592,000
13	Net Resources	19,403,400	3,787,400	23,190,800	31,769,700	2,961,700	34,731,400	51,173,100	6,749,100	57,922,200
14	TOTAL BUDGET	318,475,000	85,325,200	403,800,200	467,353,700	67,650,700	535,004,400	785,828,700	152,975,900	938,804,600

Working draft for discussion purposes 3.31.2015

**GLWA Work Plan
 March 2015 through June 2015
 Wednesday, April 01, 2015**

Task/Timeline	Coordination with BOWC	April	May	June	Jul	Aug	Sep	Oct	Nov	Dec
Policies										
Investment Policy										
Revenue Policy										
Non-contract customer Policy										
Budget Policy										
Capital Improvement Plan Policy										
Debt Management Policy										
Purchasing and Credit Card Policy										
Bond Ordinance										
Procurements										
External Auditor Selection										
Bond Counsel										
Financial Advisor										
Pension Counsel										
Property & Casualty Broker	√									
Benefits Broker/Consultant	√									
HRIS/Payroll/Timekeeping Selection	√									
Enterprise Resource Planning (ERP) Strategy	√									
Future										
Budget										
Charges										
Capital Plan Financing										