



Financial Services Audit Committee Communication

Date: August 25, 2023

To: Great Lakes Water Authority Audit Committee

From: Nicolette N. Bateson, CPA, Chief Financial Officer & Treasurer

Re: CFO Update

GLWA Receives Certificate of Achievement for Excellence in Financial Reporting for the FY 2022

This is the fourth year in a row that the GLWA has been awarded the Certificate of Achievement for Excellence in Financial Reporting by Government Finance Officers Association of the United States and Canada (GFOA) (attached). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

There are many areas, groups, and teams that contribute to success. Accountability for our organization achieving these standards is led by the following Financial Reporting & Accounting team. Specifically, I would like to note the following team members who ensure GLWA's timeliness, quality and technical review: Jill Kusters, Steve Hoover, Scott Juryn, Cindy Cezat, and Kathy Smith-Roy.

It should be noted that a Certificate of Achievement is valid for a period of one year only. The team remains committed to this high standard and intends to submit the FY 2023 to GFOA to determine its eligibility for meeting the certificate criteria.

GLWA Receives the National Institute for Public Procurement (NIGP) Agency Advancement Award – Honorable Mention

The Agency Advancement Award was established in 2020 to recognize procurement agencies who have excelled at implementing a procurement-related program or process improvement within their organization. GLWA received this award based on improvements and team member realignment to better serve our internal customers which also translates to improved vendor relationships. Below is an excerpt of the application with emphasis added.

SUMMARY of PROCESS IMPROVEMENT

In June 2022, the GLWA Procurement Team overhauled and realigned our existing procurement structure and the traditional roles and responsibilities of individuals within that structure. Prior to this process improvement at GLWA, the sourcing of goods and services, the administrative tasks associated with procurement, contract administration, and inventory purchases were all managed by the same individual (our buyers). **Our goal with this process improvement was to maximize the amount of time our buyers had to strategically source goods and services by centralizing key procurement functions. Our solution was to expand the capability and responsibilities of our procurement department to four key teams overseeing four distinct, or separate, functions: Administration, Contract Administration, Logistics & Materials, and Strategic Sourcing. Overall, the expansion and centralization of key administrative functions enabled each area of the Procurement Team to take full ownership of their unique area of responsibility.** This benefited the work of GLWA by allowing our Procurement team to serve our internal customers more effectively by affording them more time to focus on strategically sourcing the best possible goods and services for GLWA.

The enterprise-wide coordination, plant and processing intensive, as well as complex capital infrastructure nature of GLWA's procurement responsibilities require a high level of organization and role definition. The positive outcomes of this effort required engagement of the entire procurement team for an organization that continues to evolve and implement new technology. The leadership and camaraderie are evident in the procurement team member engagement activities. Thank you to the leadership and training efforts of Sonya Collins, Daniel Edwards, Joan Salwasser, Michael Lasley as well as to Megan Savage who prepared the program submittal.

FY 2023 *Preliminary* Financial Audit Fieldwork Starting Soon

The Financial Services Area continues to work on year-end adjustments in preparation for the annual financial audit. Prior to initiating fieldwork, the external audit firm, Baker Tilly, will be performing preliminary fieldwork which consists of reviewing internal controls and processes as well as interviewing GLWA team members. Preliminary fieldwork is scheduled for August 28, 2023 through August 31, 2023.

FY 2024 Q1 Budget Amendments

As we enter the first quarter of FY 2024, we continue to see increased, material budget forecast demands in the current year for utilities (\$3.7 million for water system and \$4.5 million for sewer system) and chemicals (\$1.0 million for water system and \$1.7 million sewer system). A cross-functional GLWA team is meeting weekly to evaluate utility costs and to develop a strategy to address this essential service in the future. More to come on this effort in future months.

In addition, we have a budget request to move \$3.4 million for the Linear System Integrity Program (LSIP) condition assessment program forward from the FY 2025 operating budget to this current year to accelerate the condition assessment for the 120-in pipeline. There is a possibility that these costs will support other capital projects in the approved capital improvement plan and may be eligible for capital vs. operating budget dollars. That review will be completed soon. The condition assessment will begin immediately and occur within a three month timeline.

The Financial Planning & Analysis team is working through these and other adjustments to present the Audit Committee with a first quarter budget amendment in September 2023.

FY 2025+ Budget, Charges, Forecast, and Capital Planning Underway

The framework for the upcoming budget, charges, and capital improvement plan will be presented to the Board at the Board Workshop meeting on September 13, 2023. Given the new baseline of costs given the economic challenges over the past few years, combined with the aging of our infrastructure, there is a new level of budgetary pressures. As we contemplate the timing of the next bond transaction for new capital money, seeking alignment among the Board and administration at this time is essential to provide direction to the organization for the financial, operating, and capital plans. You may recall we held a similar session last November when we also presented the [Phase I Economic Outlook Task Force \(EOTF\) report](#). In preparation for this discussion, we have attached the quarterly EOTF update prepared by Public Sector Consultants dated August 25, 2023.

As we plan for the upcoming charges rollout season, a draft of the annual Financial Plan Calendar is attached which includes dates for the Charges Rollout meetings.

Charges Outreach & Modeling Succession Plan

As you are aware, our contract with The Foster Group winds down on June 30, 2024 for charges and financial consulting with the retirement of the key principal of that firm. In succession planning, last year we filled the role of the Charges Outreach & Modeling Manager. In September 2023, a very talented team member from the Financial Planning & Analysis team, Guy Belew, will be joining Matt Lane. Guy's focus will be on many of the cost pools and cost of service study model as we seek to in-source the annual, defined work product related to charges. That being said, there will continue to be a need for an external charges consultant to support GLWA and its member partners as we continue to explore cost of service models that combine technical analytical, engineering, and financial inputs. We anticipate issuing an RFP in early September for those services.

Workday ERP Implementation

Financial System FINS – July 2024- The Financial Services team is supported by Slalom Consulting who ensures that the commitments and competing priorities within the Financial Services Area align with our partners in Information Technology, Organizational

Development, and Enterprise Asset Management / NexGen implementation. Overall the project is going very well – but not without areas of pressure. Most recently that has manifested through the design of end-to-end testing for the financial system (referred to as “FINS”). This entails the various teams coming together from their individual module of expertise to evaluate how their parts fit into the business process as a whole as well as impact on end users and vendors. An example would be the procure to payment business cycle. I have been amazed by the level of dedication, commitment, effort, and many extra hours that our team has invested to achieve a best possible outcome. The teams recently submitted their individual spreadsheets for end-to-end testing scripts (E2E) which are now being consolidated for the next phase of the project. The Slalom team is serving as the E2E consolidation team. This will largely occur over the next ten days.

Human Capital Management (HCM) – January 2024 – As you may recall the first paydate in January 2024 will be on the new system which is based on the pay period beginning on December 25, 2023. Organizational Development, Information Technology, and Financial services are working through closing open E2E and focusing on change management, training, and communication as this system will affect all GLWA team members directly.

FSA Team Member Spotlight - Slalom reports that all teams have gone above and beyond and dug into their processes and wrote these E2E test scripts on top of their normal day to day work. In particular over the past few weeks Slalom has provided me with the following team member shout outs.

- ❖ Huge shout out to Scott Schultz for going above and beyond in all meetings to help with E2E script writing for projects
- ❖ Kendra Taylor and Theresa Turner teamwork on the work they continually deliver
- ❖ Karen Gerow and Mike Gould have done a great job with the fixed assets.
- ❖ Scott Juryn has done a lot to move the end-to-end test scripts forward in his area

Capital Asset Database Review

Review of the Capital Asset database as part of the charges initiatives workplan has been underway over the past year. The scope was to support the last two topics above: Charges Outreach & Modeling Succession Planning and the ERP Implementation. The first part entailed the charges consultant working in a very large Excel file that could populate a field in the new ERP with a cost allocation code consistent with the annual cost of service study. The second part is focusing on review and data cleanup that is a typical precursor to implementing a new system. Although this sounds like a simple effort, it is further complicated by the volume of assets as well as the transition from DWSD on December 31, 2015 to operational effective date for GLWA on January 1, 2016. As you may recall, accounting rules required an asset valuation to establish a new book value and depreciable life on the GLWA books at January 1, 2016. An inventory based on the DWSD asset database and physical inspection to perform the valuation was conducted by Duff & Phelps. This effort was handled very well during an era of dynamic change, but looking back seven years later, and with different team members in place, there are a few items that we would like to

validate. Unfortunately, pre-December 31, 2015 records are not readily available so this becomes more time consuming. In addition to the evolution of the database, there are also some areas where legal agreements impact asset coding that need to be more clearly documented with the impacted assets. Finally, for charges purposes, the calculation worksheets have some adjustments long-term historical records (pre January 1, 2016). This means some further effort to document and institutionalize the professional judgement reflected in the cost of service study. Suffice it to say, we envision that we have identified some clean-up items that we would like to make to the database pending further analysis. Given that the Financial Services Area team is stretched very thin with year-end audit, upcoming budget, and ERP launch dates of January 2024 and July 2024, as well as the close out of an era with our charges consultant, we are seeking the services of a firm to document our findings and changes, provide their own level of analysis, and produce a report which encompasses member partner questions or concerns. The report would also provide sufficient information to support GLWA teams members and charges work groups who seek additional knowledge and understanding on an ongoing for charge setting now and in the future. Further, better understanding of past decisions may provide context for evaluating cost allocation of future capital investments. Lastly, a published report would serve to document and close any questions so that our retiring charges consultant is not tapped for historical context in the future. Given the fixed deadlines, this is a top priority.