



BULLETIN #2

GLWA-CS-132 External Auditing Services

Pre-Proposal Meeting Notes

This Bulletin #2 is hereby made part of the above referenced Request for Proposals and shall be taken into consideration by any and all respondents to this request for proposals.

Below are the notes from the Pre-Proposal meeting that took place at 735 Randolph Street, Detroit, Michigan on Wednesday November 30, 2016 for proposed contract GLWA-CS-132, External Auditing Services. The meeting was facilitated by Great Lakes Water Authority (GLWA) Procurement Management Professional Joan Byrne. GLWA participants included the GLWA Chief Financial Officer/Treasurer Nicolette Bateson and GLWA Internal Auditor Dana Casinelli.

1. Welcome to GLWA
 - a. Introductions
 - b. Thank you for your interest in providing services to GLWA
 - a. We understand the time, effort and resources that go into providing a proposal/bid and want to provide proposing firms with ample information to result in quality proposals.
2. GLWA staff also invests a great deal of time and effort in preparing, managing and sourcing this project to protect the integrity of the procurement process. Please note the critical aspects of the procurement process.
 - a. Integrity of the Procurement Process – The GLWA procurement processes is based upon the GLWA Board approved Procurement Policy available on the GLWA website and referenced in the Request for Proposal. Please do NOT compromise the integrity of the GLWA Procurement Process in any way by contacting GLWA staff, agents or Board Members directly or indirectly in regards to this project. The only acceptable contact is to be with the Procurement Staff, specifically Ms. Joan Byrne, assigned to this project and identified in the RFP.
 - b. It is possible and even probable that during the normal course of business you will encounter one of the GLWA staff members directly or indirectly involved in this project. It is expected that your firm will continue to communicate with GLWA staff members on current projects as business dictates. However, it is critical to the integrity of this process that this open procurement not discussed at all.

- c. Consequences of discussion or attempted discussion on this project outside of the designated Procurement Staff will result in your firm’s disqualification from the proposing/bid process and may even result in GLWA cancelling the project in its entirety.
- 3. GLWA-CS-132, External Auditing Services Request for Proposal (RFP)
 - a. The RFP contains a detailed description of the proposed project, minimum requirements, evaluation criteria, procurement and project schedule. The RFP (along with all bulletins issued), can be found on MITN and www.glwater.org. To provide a complete and quality proposal, please review the RFP and all bulletins. Respondents are responsible for registering with MITN and reviewing the MITN website for any communications related to this RFP.
 - b. Proposal submission – Proposing firms must submit proposals by the due date stated in the RFP (or subsequent bulletins) via MITN. NO OTHER method of submission of proposals will be accepted (mail, fax, email, thumb drive, CD, etc.). Proposing firms are encouraged to allow adequate time to upload proposals to MITN. GLWA will not make any allowances for failure to submit proposals by the due date and time caused by technical difficulties encountered with MITN.
 - c. Format and content – Proposals must be organized in the order described in the RFP using the format and content required in the RFP. GLWA reserves the right to reject any proposal that is not in the format and/or contain the required information.
- 4. Evaluations
 - a. We use a structured qualifications based selection process. This basis of this evaluation method is to identify the most qualified and capable vendor for completing the work described in the RFP.
 - b. While fees are considered prior to contract award, fee proposals are not scored. Following technical proposal evaluations and ranking of the firms, cost proposals will be reviewed for competitiveness against benchmark information.
- 5. Award
 - a. Once a firm has been selected and the formal contract award has been made, the award information will be posted on MITN.
 - b. Until award notification is posted, the proposals remain in the evaluation stage of the sourcing selection process.
 - c. Vendors are asked to check on MITN for award notifications.

Project:

A verbal summary of the Request for Proposal was provided at the pre-proposal meeting noting the following.

GLWA is unique “start-up” entity operating a large water utility with a long operating and financial history. Total system revenues of nearly \$800 million combined with current year bond proceed of \$257 million, result in an entity with approximately \$1 billion in cash inflows in ~~our~~the first year. While GLWA has been in existence since November 2014, there ~~has were~~ no financial activities until GLWA became operating the regional water system on January 1, 2016. The effective date of opening balances is January 1, 2016.

The selected auditors will face three different scenarios for each of the three years of the audit engagement. The first year of the audit for the year ended June 30, 2016 is a start-up entity with phased-in implementation of new financial systems. The second year of the audit for the year ended June 30, 2017 will have more stability with completion of the financial systems implementations and improvements in business processes and internal controls. The third year ended June 30, 2018 will be a steady state.

The system has been in a mode of driving organizational optimization and professionalism of its financial team. While GLWA is a local government as a regional authority, its core mission is a utility with three key facets of our operations.

1. A wastewater treatment facility, which is considered to be the is the largest facility in North America, that is has operational similarities to a processing facility;
2. Five water treatment plants with current excess capacity; and
3. Significant planning, design, and construction activity with a current capital improvement plan that averages \$250 million per year with several multiple year projects.

The GLWA issued water and sewer bonds in October 2016. All three credit rating agencies (Fitch Ratings, Moody's Investors Service, and Standard & Poor's) have taken positive ratings actions since GLWA's operational effective date of January 1, 2016. The bond Official Statements for the water and sewer systems provide additional information about GLWA, its operations, credit ratings, and financial information which are available on the Investor Relations page of the website.

Questions from the Vendors/Answers by GLWA:

1. Question: Are questions 2 and 3 under the Minimum Requirements of the Request for Proposal the same?
Answer: Yes, questions #2 and #3 are duplicates.
2. Question: Must all minimum requirements be met?
Answer: Yes all minimum requirements must be met in order for proposals to be evaluated and considered for sourcing.
3. Question: What will be a distinguishing factor for a firm to stand out since all firms will have to follow the same accounting guidance?
Answer: The GLWA audit is unique because this is the first year in operation. The approach that the firm takes for this first year can distinguish it from others. The Authority will also be looking for guidance on what is needed to be prepared for the audit approach.
4. Question: What are some of the areas where judgement was required to create the start-up? Will records be available at GLWA or will it mean there will be coordination required with the City of Detroit?
Answer: The leases have been clear on the transfer of assets. A team of attorneys and accountants were involved in the drafting of the leases that govern the regional authority to provide alignment between legal and accounting treatment. Key organizational documents are available on our website and the accounting treatment is described in the RFP. The GLWA management team is involved in assisting the City of Detroit with the closing and audit preparation of the predecessor entity, the Detroit Water & Sewerage Department (DWSD) through December 31, 2015 in addition to the final reporting for the City's year ended June 30, 2016 audit. Given that the GLWA was borne out of collaboration among the City of Detroit, Counties of Macomb, Oakland, and Wayne, and the State of Michigan, it is assumed that there will be a high level of coordination with the City of Detroit and the DWSD management. The auditors will have full access to all pertinent records and the work will all be done in the Water Board Building at 735 Randolph.
5. Question: Why was there a change in the year end?
Answer: There was no change in year-end. The year end is June 30th. However, financial and operational activities began on January 1, 2016. The first six months of the fiscal year, July 1, 2015 through December 31, 2015, did not have any financial activity.
6. Question: Will there be statements issued by the City of Detroit for 12/31/15 for DWSD?
Answer: The City of Detroit did not engage their auditors to complete statements for 12/31/15. There will, however, be separate statements issued for the year ended June 30, 2016 for the City of Detroit Water Fund and Sewer Fund. This could change if requirements to do so become necessary for the startup of GLWA.
7. Question: What is the timing for the completion of the audit:
Answer: It is anticipated that the financial statements and independent audit opinions would be completed and issued within 30 days after the issuance of the City of Detroit's audited financial statements for the year ended June 30, 2016. The rationale is to accommodate final City of Detroit December 31, 2015 schedules that could have an impact on GLWA. We would want to be able to be amend reports and provide

the auditors sufficient time to respond to anything that could change the beginning balances of the financial statements.

8. Question: Is there a pension audit or agreement that could impact the GLWA audit?

Answer: The GLWA's employee benefit program provides for a defined contribution pension plan administered by ICMA-RC. Accordingly, there is no GLWA pension system to audit. GLWA does, however, carry forward a pro-rata liability for the City of Detroit's legacy pension system. There is an agreement between the City of Detroit, the City of Detroit General Retirement System (DGRS), and the GLWA related to additional reporting requirements by the DGRS related to the liability allocated to GLWA. That agreement is available online. The City of Detroit and the GLWA are preparing a Memorandum of Understanding that further defines the pension obligation liability allocation and the pool of employees that are split between DWSD and GLWA.

9. Question: Is there an OPEB plan?

Answer: There is not a GLWA OPEB. The GLWA retiree healthcare benefit design is based on a fixed dollar contribution per pay period. The GLWA does pay an allocable share of the City of Detroit's B/C Notes issued during bankruptcy to address the City-wide unfunded OPEB liability by replacing it with a VEBA with initial funding from those notes.

10. Question: When will the audit start?

Answer: Proposals are due December 20, 2016. The Audit Committee will present their top three recommendations to the Board. The Board then has 30 days to make the final decision. It is a tight deadline but we expect the contract decision to be made before February 1, 2017. It is expected that most audit schedules will be ready at that time. It should also be noted that firms are allowed to work together and to use other audit firms as needed for the completion of the audit. These arrangements should be described in the proposal.

11. Question: How many major programs are there for the Single Audit?

Answer: There is only one major program which is the State of Michigan revolving loan program with federal funding. It is a material dollar amount with a very low number of transactions. The State is the pass-thru agent. In addition, DWSD is a sub-recipient of GLWA effective January 1, 2016. The Authority staff has excellent communications with the State to be sure that there is in compliance with all requirements. The GLWA grants management staff has many years of experience working on these programs with no findings for the year ended June 30, 2014.

12. Question: Will you share the amount you estimate that is audit fees?

Answer: Given that this is a multiple year operating expense engagement, and it is expected that the audit plan will be different each of the three years, a fixed budget has not been established for this project. The Authority seeks your suggestions for making sure requirements are met but also how to control fees.

13. Question: What is Duff & Phelps doing and where do they stand?

Answer: Duff & Phelps is performing a full physical count of assets with an acquisition value greater than \$10,000 at December 31, 2015. They are also determining the valuation adjustment for accounting purposes in accordance with GASB 69 as described in the RFP. The draft report is due in December 2015 with a final report due in January 2016. A copy of Duff & Phelps scope of work can be found below these questions.

14. Question: Will Duff & Phelps be looking at spare parts inventory?

Answer: They are only valuing those items that are \$10,000 and more. This typically doesn't include spare parts inventory. GLWA has had an initiative to minimize inventory.

15. Question: Was there an inventory count performed at December 31, 2015? What about other balance sheet accounts?

Answer: For bifurcation purposes there was a count performed at December 31, 2015. There was a second count performed at June 30, 2016. The changes to the inventory through June 30th were then a result of changes to the perpetual records. Inventory is not material to the Statement of Net Assets unlike debt and cash and investments.

16. **Question:** Has the effort to cleanse the data during the stand-up resulted in a lot of reclass entries?

Answer: There are accounts for which we have been reviewing the activities in them to be sure that they are properly classified. Previously, we could not easily obtain reports to perform this level of analysis. Yes there have been reclass entries as a result. We expect this effort to be completed by December 31, 2016.

17. **Question:** There appears to be a lot going on to set up the entity. What else can be provided to see progress?

Answer: After four months of existence, the effort to prepare GLWA's first official statements was initiated with a successful refunding transaction in October 2016. Again, we would refer to those official statements to better understand GLWA.

18. **Question:** You mentioned the process you are going through to clean up activity and record reclass entries. When will this be done?

Answer: This process is about 60% complete. Some of these activities have also involved realigning the allocation of costs when it is necessary to do so. We are developing processes to be more efficient.

19. **Question:** Will the remaining 40% be completed before February 2017?

Answer: It will be completed before December 31, 2016. There are efforts underway now to complete this soon. The completion of this leads into the budget process. The reclass entries need to be completed so the budget can make use of the recorded activity.

20. **Question:** What procedures and controls are documented?

Answer: We have had a devoted effort in place to document procedures that existed at June 30, 2016 and updates made to the processes since then. We are now updating these documents with the controls in place that include compliance and key financial controls. We have many CPAs in the organization that have been working on the financial statements and the processes.

21. **Question:** Do you expect any audit adjustments to June 30, 2016 after February 1, 2017?

Answer: The pension liability allocation may not yet need to be finalized due to the timing of supplemental DGRS actuarial analysis. In addition, due to the changes to the systems and staffing at the City of Detroit, there may be some long lead time, like compensated absences balances, that may still be an open item.

22. **Question:** When a partial payment comes in from a customer that is both for water and sewer is it allocated at the customer level?

Answer: Yes it is allocated at the customer level. A graphical representation of the Master Bond Ordinance flow of funds is posted on the Investor Relations page at glwater.org in addition to the Master Bond Ordinance. This is a good reference source to better understand the process. The cash receipts process and related Trustee relationship is well defined because it provides protection to the bond holders.

Questions from the Vendors/Answers by GLWA:

23. **Question:** We are reviewing the RFP requirements and noted that one of the requirements indicates that the partner and managers must be licensed in the State of Michigan. We are looking at our resources and have identified a partner in Chicago with the qualifications to serve on this audit. He is licensed in Illinois but has reciprocity in Michigan. Would this meet the requirements that are contained in the RFP?

Answer: The minimum requirement states that all assigned partners and managers must be licensed to practice public accounting in the State of Michigan.

If the partners and managers are not specifically licensed in the State of Michigan, an explanation and evidence should be provided to show that the firm would still meet all necessary requirements to serve as GLWA's external public accounting firm.

If this requirement will be fulfilled through the Uniform Accountancy Act, evidence must be provided to show:

- The State that the partner uses as the principal state of business.
- The license is an active unrestricted CPA license from the State. A certificate or registered certificate holder would not suffice.
- The firm is registered in the State of Michigan to perform engagements in accordance with Statements on Accounting Standards.

24. Question: For #2 under minimum requirements, please confirm that the \$500 million revenue and 500 employees requirement refers to the client itself and is not specific to the size of the utility within the client. Any alternative reading would dramatically limit the pool of potential respondents.

Answer: The \$500 million revenue and 500 employees requirement refers to the client itself and not specific to the size of the utility within the client.

25. Question: For #3 under minimum requirements, please confirm that this should be deleted as repetitive of requirement #2.

Answer: Requirement #3 is repetitive and should be deleted since it is duplicative of the requirement in #2.

26. Question: For #4 under minimum requirements, would GLWA consider experience with consent letters on official statements for GO Bond issues greater than \$100 million as satisfying the minimum requirement instead of the more limited reading of "revenue bonds"? Alternatively, would GLWA consider experience on consent statements on revenue bonds that are less than \$100 million. Without this clarification, this minimum requirement would significantly reduce the pool of available respondents and may not provide any additional benefit to GLWA.

Answer: GLWA would consider experience with consent letters on official statements of GO Bonds issues greater than \$100 million as satisfying the minimum requirement rather than the more limited reading of "revenue bonds".

27. Question: I did not see a requirement for an affirmative statement of independence of the firm, pursuant to applicable accounting standards. Should such a statement be included within the Mandatory items under Conflict of Interest [Section II(I)], or should this be added to Minimum Requirements?

Answer: Within the Mandatory items under Conflict of Interest [Section II(I)], a statement must be provided on the proposer's letterhead that attests to the avoidance of conflicts of interest. In order to provide services as the independent public accounting firm, independence rules are required to be met.

As validation to Section II, Mandatory Items, I. Statement of Conflict of Interest, please provide a statement on the proposer's letterhead that attests to the independence of the firm in accordance with the AICPA Code of Professional Conduct and with generally accepted government auditing standards (GAGAS).

28. Question: With the initial implementation of the Authority's new ERP system to be used for financial reporting, are there any unresolved issues, system shortfalls or report queries that would impact the ability for an auditor to obtain detailed information for audit purposes?

Answer: As a result of the system implementation, there are no noted system unresolved issues, system shortfalls, or report queries that will limit the detailed information available for audit purposes.

29. Question: How large is the Authority's IT Department?

Answer: There are approximately 50 full time employees in the IT Department.

30. Question: Please describe the daily interaction between the Authority and the City of Detroit as it relates to operations.

Answer: The staff and management of GLWA are the lead team in providing the accounting services and audit support to the City of Detroit for the DWSD's operations through December 31, 2015. There is also a high level of coordination through the completion of the City's FY2016 CAFR to assure a smooth transition. In addition, the theme of the lease is to foster ongoing intergovernmental services and collaboration with the City, DWSD, and GLWA.

Pursuant to the lease and services agreements, the State Revolving Loan Program proceeds are passed through to the Local System. The DWSD is therefore considered a sub-recipient. In this capacity GLWA performs monitoring of all related activities for the use of these funds.

The Shared Services Agreement is available at <http://www.glwater.org/board/organizational-documents/>

31. Question: Who else has been invited to bid?

Answer: Every firm registered under the appropriate NIGP codes has access to bid utilizing MITN.

32. Question: Aside from the disclosures in the RFP regarding the valuation engagement that is in process, are there other items that will be included in the valuation?

Answer: See question and answer that references the Duff & Phelps scope and contract.

33. Question: Please confirm that the Authority is planning to prepare the Schedule of Expenditures of Federal Awards.

Answer: GLWA is preparing the Schedule of Expenditures of Federal Awards (SEFA).

34. Question: What was the total amount federal awards expended in 2016?

Answer: The federal awards expended in 2016 are approximately \$50 million.

The State Revolving Loans provide capital project financing. There were no findings for the major program for the most recent audit year ended June 30, 2015 for DWSD.

35. Question: What assistance does the Authority expect they will need from the auditors for implementation of new GASB statements?

Answer: Specific assistance has not been identified in relation to new GASB statements. The application of GASB 69 has been determined by management. GLWA will provide further details of the application of GASB 69 with the selected public accounting firm. GLWA will be looking for the public accounting firm's professional guidance in meeting all requirements as a new entity.

36. **Question:** Who is the third-party administrator the Authority's workmen's' compensation and liability insurance self-insurance plans?

Answer: These details will be provided to the public accounting firm that is selected from this process.

37. **Question:** Does the Authority anticipate having any new bond issues for 2016?

Answer: The Authority did issue new water bonds as well as water and sewer refunding bonds in October 2016. The next bond issue is expected in 2018.

38. **Question:** Approximately how many cash and investment accounts are maintained?

Answer: GLWA had 61 accounts open at June 30, 2016, 4 accounts were closed during the year, with 4 financial institutions. Of the 61 accounts, 3 are DDA accounts as follows: Payroll (imprest); Customer Refunds (manual checking for retail customer refunds below \$1,000 with low activity); and AP (approximately 2,000 checks written in the period from when account opened in March 2016 to June 2016). GLWA held 58 fixed income investments as of June 30, 2016.

Many accounts are related to the flow of funds with regular monthly transfers. Interested firms can see the following link for the flow of funds:

<http://www.glwater.org/wp-content/uploads/2015/11/Master-Bond-Ordinance-Flow-of-Funds-Graphic-version10-10-16.pdf>

39. **Question:** Are all cash and investment accounts reconciled on a monthly basis with investments adjusted to fair values?

Answer: Yes, with some exceptions due to opening balance sheet updates. These details will be provided to the public accounting firm that is selected from this process.

40. **Question:** How many cash collection points are there?

Answer: These details will be provided to the public accounting firm that is selected from this process.

Attachments:

- A. Duff & Phelps Contract
- B. Pre-proposal meeting Sign In Sheet