

Independent Audit Services
Solicitation No. Q-10-007-MF
Questions and Answers
June 7, 2010

- 1a. Is the incumbent firm eligible to submit a proposal?
- 1b. Are the current auditors eligible to rebid on these services?
- 1c. Will the audit firm who was engaged for the 2009 audit be eligible to bid on the 2010 audit?

Answer: The incumbent firm is eligible to submit a proposal as long as the audit partner rotation requirement stated in the RFP is followed.

- 2. What other firms have you requested to propose on the engagement?

Answer: SAWS invited all firms that have registered through our website to provide a proposal as well as other accounting firms that may have experience in the services we require. For an updated list of firms that have shown an interest in this RFP, please log in to our website and go to: http://www.saws.org/business_center/contractsol/interestedfirmslist.cfm?id=104.

- 3a. Were there any auditor proposed adjustments to the financial statements? If so, how many and what was the impact to the trial balance?
- 3b. How many audit adjustments were proposed by the auditors last year?
- 3c. Can you provide a copy of the prior year audit adjustments for our review?

Answer: There were no auditor proposed adjustments during the 2009 audit.

- 4. Were there any significant deficiencies or material weaknesses in the prior year audit? If so, have you implemented any new policies or procedures to address them?

Answer: There were no significant deficiencies or material weaknesses noted during the 2009 audit.

- 5a. Would you please provide us with the FY 2009 Management Letter if applicable?
- 5b. Can you provide a copy of the prior year management letter for our review?

Answer: As previous answers have indicated, there were no audit adjustments proposed by the auditors during the 2009 audit and no material weaknesses or significant deficiencies noted during the audit. The auditors did note control deficiencies related to inconsistencies in personnel file documentation, Davis-Bacon

Act compliance and the absence of an aging report of accounts receivable. Management agreed with the auditors recommendations related to these deficiencies and is working on correcting the deficiencies during 2010. The auditors noted no disagreements with management during the audit. SAWS will provide the prior year management letter to the firm(s) awarded the audit contract.

- 6a. Has interim fieldwork been performed in prior year audits? If so, when is it typically performed?
- 6b. Will the client have availability to do preliminary work, including A-133 testing sometime between late October and December?
- 6c. What is SAWS preferred time line for planning and preliminary fieldwork?

Answer: Planning of the audit generally occurs during August or September. Typically interim procedures are performed on activity through and balances as of September 30. This work is generally performed during the month of November and/or December.

- 7. When is the entity typically ready to commence final fieldwork?

Answer: A final trial balance will be available by the end of January. End of year fieldwork generally begins the first week of February and is completed no later than the third week in March.

- 8a. How many people did the prior audit firm have at your offices for fieldwork and for how many weeks were they there?
- 8b. If known, how many hours did the predecessor auditor take to complete the work? If unknown what was the length of time the auditors were typically in the field?
- 8c. Approximately what were the total hours reported by the prior year auditors as it relates to the audit?

Answer: A portion of the RFP's evaluation criteria relates to the respondent's engagement approach. Each respondent should estimate the appropriate staffing requirements based on their experience with clients of similar size and type.

- 9. How many meetings is the auditor expected to have with the audit committee and the board in each year?

Answer: The Audit Committee meets at least quarterly. Presentations regarding the status of the audit should be made at the October and January Audit Committee meetings. A special Audit Committee meeting will be scheduled in late March to present the audit report, findings and recommendations. The audit report, findings

and recommendations will also be presented to the Board of Trustees at their April meeting.

10. What was the fee for the prior year's audit?

Answer: The audit fee for the year ended December 31, 2009 was \$181,125. This fee included \$11,500 associated with the review of the actuarial valuation of SAWS' OPEB plan performed as of January 1, 2009. In accordance with GASB 45, SAWS obtains biennial valuations of this plan. The next valuation will be performed as of January 1, 2011 and will be used to determine the Annual Required Contribution for 2011 and 2012. The audit fee paid for 2009 may not be representative of the amount time or experience that the respondent will propose for this RFP.

11a. Has the entity undergone any significant changes since the last audit such as a change in accounting or operation software or turnover in key finance / accounting personnel.

11b. Has there been a change in key personnel associated with the audit process from the prior year?

Answer: There have been no significant changes in key finance or accounting personnel. Over the last few years SAWS has been in the process of implementing its integrated software system, called ERSS (Enterprise Resource Software System), delivering current information systems to replace numerous SAWS legacy systems. The project began in 2006 and in 2007 the Finance, Procurement, Human Resources and Payroll applications were implemented. During 2008, SAWS went live with additional applications including Budget and Planning, Work Order/Service Order and Asset Management, and phase one of Permitting. Two additional applications, Customer Information System and phase two Permitting, are anticipated to be implemented by the end of 2010. During 2011, further portfolio stabilization will take place along with phase three Permitting and related web enablement. Once complete, the new applications portfolio will allow for improved functionality, organizational effectiveness, and sustainability.

12. What software do you utilize for maintaining the general ledger?

Answer: SAWS utilizes Lawson S3 Financial Software for maintaining the general ledger.

13. Has there been an outside review of SAWS' computer system within the last three years?

Answer: In 2009 SAWS hired an independent firm to perform a review of the security design for the Lawson Financial Software. No significant findings were noted and management has implemented the recommendations proposed by the

reviewer. No other independent reviews have been performed on SAWS computer systems during the last three years.

- 14a. Did you receive or do you anticipate receiving stimulus funds during FY 2010?
- 14b. Did SAWS receive any American Recovery and Reinvestment Act funds during the current year? If so, how much and for what federal program?

Answer: SAWS has not received any stimulus (ARRA) funds. SAWS did issue Build America Bonds in 2009. These bond proceeds are not subject to Single Audit procedures.

- 15a. Any other changes to the level and types of federal or state funding?
- 15b. Can you provide a Budgeted or Expected Schedule of Expenditures for Federal Award for the year ended December 31, 2010? Do you anticipate that the Schedule of Expenditures of Federal Awards for the year ended December 31, 2010 will be comparable to the one in 2009? Will there be programs in addition to CFDA 66.458, "Capitalization Grants for State Revolving Funds" that will be required to be tested under A-133, including any ARRA funds?

Answer: It is anticipated that the 2010 Schedule of Federal Awards will be similar to the 2009 Schedule of Federal Awards with the majority of the expenditures to occur under the Capitalization Grants for State Revolving Funds, CFDA 66.458, with other lesser expenditures to occur under CFDA 66.606 and CFDA 66.202. It is anticipated that the total expenditures under these programs will total more than \$500,000 for 2010. The 2009 Schedule of Federal Awards is included in SAWS' 2009 Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on SAWS website at:
http://www.saws.org/who_we_are/annual_reports/CAFR/PDF/CAFR_2009.pdf

16. Please describe any anticipated significant changes in SAWS' activities and programs in the near future.

Answer: Information about SAWS major initiatives is contained in the Letter of Transmittal for SAWS' 2009 CAFR.

17. Can you provide the expected amounts to be expended for land rights, water rights or other intangibles acquired in 2010?

Answer: SAWS anticipates that it will expend approximately \$47 million during 2010 to acquire additional water rights. No other significant investment is expected in intangible assets during 2010.

18. What are the planned annual bond amounts to fund the \$950 capital spending over the next five years? Is SAWS still expecting to internally finance roughly 30% of the costs?

Answer: SAWS currently projects total capital spending over the next five years to be approximately \$1.5 million of which approximately \$1.1 million will be debt funded.

19. Are there any planned refunding issues in 2010?

Answer: SAWS refunded the City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999 and City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A with the proceeds from the City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2010 on March 4, 2010. At this time, SAWS does not anticipate issuing additional refunding bonds for the remainder of 2010.

20. What is SAWS plan to improve the funding status of the unfunded actuarial accrued liability for SAWS three benefit plans?

Answer: SAWS is currently reviewing the benefits offered to SAWS employees, including all post employment benefits. This review is expected to be completed by the fall of 2010. Once this review has been completed, the SAWS Board of Trustees, working with management, will determine the appropriate level of benefits as well as develop a plan to address any unfunded liabilities over time. It is currently anticipated that the impact of any changes to the benefits provided and/or level of funding of actuarial liabilities would be reflected in SAWS' 2012 operating budget.

21. Is there currently any significant litigation that could potentially impact disclosure or recordation in the financial statements?

Answer: In addition to matters previously disclosed in SAWS 2009 CAFR, the following disclosure will be included in SAWS Official Statement expected to be issued in July 2010. At this time SAWS is aware of no other matters that could impact the financial statements or footnotes.

Cause No. 2:10-cv-00075 in the United States District Court for the Southern District of Texas, Corpus Christi Division; The Aransas Project v Shaw, et al.

This lawsuit was filed on March 10, 2010, by The Aransas Project, a public interest group. Defendants are officials of the Texas Commission on Environmental Quality, the state agency charged with administration of the state's surface water use permits, including permits issued in the Guadalupe River and San Antonio River. The plaintiff seeks broad injunctive relief under the federal Endangered Species Act for the benefit of the Whooping Crane and its habitat in and around San Antonio Bay at the confluence of these two rivers. The relief sought would include reduction of existing water uses, the imposition of special conditions on existing permits and the appointment of a Special Master to administer any activity ordered by the Court. This relief could have broad

implications for the availability of surface water rights and water usage in the San Antonio and Guadalupe River basins. On June 7, 2010, the San Antonio Water System filed a motion to intervene as a party in this lawsuit in order to protect its interests in surface water in these river basins. Motions to intervene have also been filed by the Guadalupe Blanco River Authority, Union Carbide, the Texas Chemical Council, the Texas Farm Bureau. The court has not yet acted on the System's motion to intervene. Trial in the case is currently set for March 2, 2011.

22. Is the SAWS Retirement Plan a defined contribution or a defined benefit plan?

Answer: The SAWS Retirement Plan is a defined benefit plan.

23. How many participants are in the plan?

Answer: As of the last valuation date (January 1, 2009) SAWS Retirement Plan had 1,569 active participants, 388 inactive participants and 427 retired participants. SAWS has not yet received the January 1, 2010 actuarial report.

24. What are the total assets of the plan?

Answer: As of December 31, 2008 the SAWS Retirement Plan assets totaled \$53.2 million. SAWS has not yet received the financial statements for the plan for 2009.

25. What third party administrators do you work with (trustee, actuary, plan accountant, etc).

Answer: The SAWS Retirement Plan is currently administered by Principal Financial Group.

26. Can you provide the GFOA comments for the 2009 CAFR if received yet?

Answer: SAWS has not yet received any GFOA comments for the 2009 CAFR.

27. Can we get copies of the SAWS most recent internal financial statements and internal audit reports?

Answer: SAWS 2009 CAFR is available on its website. Interim financial statement and internal audit reports will be provided to the firm(s) awarded the audit contract.

28. Is a separate report required for the chilled water and steam system?

Answer: No separate report is required.

29. For #5 on page 7 of the RFP, you have the proposed fee schedule for 2010 through 2012. Do you want the fees broken out into three categories for each year (annual audit, Single audit, and internal control communication) or will total fees for each year suffice?

Answer: Total fees for each year will suffice.

30. If the proposer is a Small, Minority, Women Business (SMWB), is there a requirement to demonstrate a good faith effort to subcontract with another SMWB?

Answer: SAWS encourages all contractors to demonstrate a good faith effort and utilize SMWB firms (prime and subcontractors) on all contracts. Points are awarded based on the total SMWB participation. The score allocations can be found on Page 8 of the RFP.

If the prime contractor is a certified Minority/Women Owned Business Enterprise, 15 points will be awarded. If the prime contractor is a certified Small Business Enterprise, 5 points will be awarded, with the opportunity to earn an additional 5 points based on the total percentage of SMWB subcontractor participation, for a maximum total of 10 points. If the prime contractor is a non-certified SMWB firm, a maximum of 10 points will be awarded based on the total percentage of SMWB subcontractor participation.