



REQUEST FOR PROPOSAL

Independent Audit Services

Solicitation No.: R-17-008-PC

Addendum 2 | July 18, 2017

QUESTIONS AND ANSWERS

- Q1. Why is SAWS issuing this RFP for Independent Audit Services?
- A1. SAWS previous audit contract with Padgett Stratemann & Co. LLP (PS&Co) was entered into in 2015 for audit services for the 2015, 2016 and 2017 audits. In August, 2016, PS&Co was acquired by RSM US LLP (RSM). While initially considered, it was determined that SAWS did not have sufficient time to issue a request for proposal for the 2016 audit and therefore decided to allow RSM to perform the 2016 audit as successor to PS&Co. At the conclusion of the 2016 audit, the SAWS Board of Trustees determined that the contract should be terminated and a request for proposal issued.
- Q2. Other than price what are the key differentiating factors that you are looking for in your Auditor?
- A2. As articulated within the RFP, SAWS is looking for demonstrated experience with audits of proprietary or enterprise funds of municipal governments and with public or investor owned utilities. See section IV.4b of the Request for Proposal for additional qualifications.
- Q3. What were your fees for the 2015 and 2016 audit of SAWS and the DSP?
- A3. Total Audit fees were \$190,000 for 2015 and \$178,500 for 2016. Separate audit reports were issued for SAWS and DSP for 2015 while only an audit of SAWS was issued for 2016.
- Q4. What accounting system does SAWS use and do you have any planned system changes for 2018 or 2019?

- A4. SAWS utilizes Infor's Lawson financial system for most financial applications (general ledger, accounts payable, and payroll). SAWS utilizes Infor's Public Sector Customer Information System for customer billing. SAWS is in the process of upgrading the Lawson financial applications to Lawson 10x, hosted in the cloud. This upgrade is expected to be completed in August 2017. No other changes are expected in these systems for 2018 or 2019.
- Q5. Have you evaluated the impact of GASB 83? If so, what impact do you anticipate?
- A5. SAWS has not yet evaluated the impact of GASB 83, Certain Asset Retirement Obligations. It is likely that this standard will have an impact on SAWS financial statements in 2019 when SAWS adopts GASB 83.
- Q6. Do you expect GASB 84 Fiduciary funds to add another schedule to your CAFR?
- A6. SAWS already reports all fiduciary funds in the fiduciary fund statements included in the 2016 CAFR.
- Q7. What impact do you expect GASB 87- Leasing standard to have going forward?
- A7. GASB 87 will be adopted by SAWS in 2020. Based on SAWS current leases, SAWS does not expect the adoption of this standard to have a material impact on its financial statements.
- Q8. Has SAWS received control deficiency recommendation letters from your auditor and if so, have any risen to the level of a significant deficiency or a material weakness?
- A8. For 2014 and 2015, PS&Co made five recommendations related to internal controls, none of which were categorized as a significant deficiency or material weakness. During the 2016 audit, RSM noted one significant deficiency related to the capitalization of internal costs associated with self-constructed assets. The auditor's recommendation was as follows:

We recommend the capitalization policy include comprehensive guidelines and control procedures specific to the accounting and financial reporting of self-constructed assets. The policy should define ancillary costs, which include, at a minimum, direct labor and other direct costs, as well as define the level of supporting documentation required for each type of cost to allow for an enhancement in both accountability and consistency in the treatment of direct construction costs in accordance with U.S. GAAP. Management's capitalization policy should also incorporate the use of periodic certification (monthly, quarterly), random moment time studies or time and effort tracking of each employee whose labor is being capitalized. The tracking procedure should include daily time and effort logs for employees whose majority of time is spent on capital projects and time studies for employees whose time on capital projects is not constant or significant.

Management's response to this audit recommendation is as follows:

Management believes that SAWS capitalization policies are consistent with U.S. GAAP. Management will develop a more detailed capitalization policy that includes comprehensive guidelines and control procedures in order to provide better documentation and support for ancillary costs capitalized related to self-constructed assets. The policy will identify ancillary costs eligible for capitalization in accordance with U.S. GAAP, as well as define the level of supporting documentation required for each type of cost capitalized. This documentation will include periodic time studies and effort tracking for employees whose labor is being capitalized.

Q9. Does SAWS use third party service providers with respect to any business processes? For example, a third party payroll service or entity for monitoring and counting of meter readings? To the extent there are third party service providers, are there service auditor reports available?

A9. SAWS currently uses third party service providers to administer its pension plans and self-funded employee health program. SAWS also utilizes a third party contractor to perform meter reading activities related to a portion of customers' water meters. SOC 1 reports are available for each of the pension plan administrators.

Q10. Will the work all be performed at a central location or does SAWS have other locations (in San Antonio or otherwise) where work will need to be performed?

A10. All work has been historically performed at SAWS headquarters location in San Antonio.

Q11. When does preliminary and final fieldwork normally occur?

A11. Preliminary field work has generally been conducted in November and has lasted for 2 to 3 weeks. Final field work has begun in the last week of January or first week of February and continued for 6 to 7 weeks.

Q12. How many auditors were on site for final and preliminary fieldwork and for how long?

A12. The number of auditors onsite has varied from week to week. SAWS did not request nor receive a detailed accounting of audit staff hours.

Q13. What were the total hours to complete the 2016 financial audit?

A13. See response A12.

Q14. Can you please provide a copy of the 2016 single audit report, management letter and recommendations letter as well as a sample of the last agreed-upon procedures (AUP) report for TCEQ?

A14. The requested documents have been made available on the same SAWS webpage as this RFP solicitation.

Q15. What were your fees for the 2016 audit of SAWS? What were the fees for the 2016 AUP?

A15. See response A3 for the audit fees. The fee for the 2016 AUP was \$2,500.

Q16. Was the retirement plan separately audited? If so, can you please provide that report as well as the fees associated with the last plan audit?

A16. The SAWS retirement plan and the DSP Retirement Income plans are not audited and there are no separate reports. The TMRS plan in which SAWS is a participant is audited. An audit report is available at www.tmr.com

Q17. 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 these issues?

A17. See response A8.

Q18. Were there any adjusting journal entries made as a part of the 2016 audit? If so, can you please provide them?

A18. In connection with the 2016 financial statements, SAWS management proposed and recorded an adjustment of \$4.8 million to reduce the amount of internal costs capitalized to construction in progress.

Q19. Do you anticipate any changes to the number of programs or major programs? Have you evaluated the impact of OMB grant reform?

A19. We do not anticipate the number of federal programs or major programs to increase. Management believes that SAWS is in compliance with requirements related to federal awards as outlined in the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Q20. Will the incumbent provider be allowed to submit a proposal?

A20. The previous auditor will be allowed to submit a proposal.

Q21. What do you like or dislike about the current level of service?

A21. As cited in the RFP, SAWS is seeking an audit firm with significant experience in the audits of proprietary or enterprise funds as well as the audits of public or investor owned utilities.

Q22. How many meetings is the auditor expected to have with the audit committee and the board in each year? In the RFP it was noted there was one meeting in April to present the final report. Will there be other meetings required?

A22. The auditors will be expected to meet with the Audit Committee at the commencement of the audit and at the conclusion of the audit. The auditors will also be expected to meet with the Board when the final audit report is presented to the Board for acceptance.

Q23. What software do you utilize for maintaining the general ledger?

A23. See response A4.

Q24. Has your organization undergone any significant changes since the last audit, such as a change in accounting or operation software or turnover in key finance or accounting personnel?

A24. There has been no turnover in key finance or accounting personnel since the last audit. See response A4 for information about software changes.

Q25. Can you provide the GFOA comments for the 2016 CAFR, if received? If 2016 has not been received, can you provide the comments for 2015 CAFR?

A25. GFOA comments are not yet available for the 2016 CAFR. The following comment was received from GFOA on the 2015 CAFR:

Refer to TMRS on page 77. When an actuarially determined contribution is calculated for an employer, the required supplementary information should present a 10-year schedule of employer and nonemployer contributor contributions that are determined as of the employer's most recent fiscal year end rather than as of the measurement date of the net pension liability. [GASB S68: 46; Q&A 5.154.2 and 5.157.5]

Q26. Do the table of contents, the Proposed Fee Schedule and appendices such as resumes count towards the 30 page limit?

A26. Yes.

Q27. How much of the current contract is subcontracted to SMWBs? If the current percentage is different than the RFP requirement please explain this difference.

A27. The previous auditors subcontracted 25% of the audit fees to an SMWB service provider. Refer to section V. B. of the Request for Proposal for SAWS SMWB policy.

Q28. Do subcontractors need to complete the Conflict of Interest Questionnaire?

A28. Subcontractors do not complete the Conflict of Interest Questionnaire.

Q29. Can you provide a copy of the 2016 GAGAS report and related SEFA?

A29. See response A14.

Q30. Can you provide a copy of the 2016 report on internal control and any management letter comments?

A30. See response A14.

Q31. What was the total audit fees for 2016?

A31. See response A3.

Q32. What was the total audit hours incurred by the previous audit firm?

A32. See response A12.

Q33. Were there any other difficulties encountered during the 2016 audit beside the restatement issue?

A33. The restatement of 2015 financial statements to reflect the merger of SAWS & DSP did not pose any difficulties during the 2016 audit. While the actual merger of SAWS and DSP became effective in February 2016, the 2015 financial statements for SAWS were restated in accordance with the provisions of GASB 69. Because SAWS issues comparative financial statements, the merger was reflected as of January 1, 2015 instead of the actual date of the merger.

Due in part to the transition from PS&Co to RSM (as discussed in response A1), the 2016 audit took longer than normal to complete. SAWS typically issues the CAFR at the end of March. Additional audit work performed by RSM, particularly related to the capitalization of internal costs (see response A8 and A34), contributed to a two month delay in the issuance of the 2016 CAFR.

Q34. Can you provide a list of adjusting audit entries and waived adjustments proposed during the 2016 audit?

- A34. As discussed in A18, SAWS management proposed and recorded an adjustment of \$4.8 million to reduce the amount of internal costs capitalized to construction in progress. RSM reported a passed adjustment in the amount of \$5.3 million related to the same issue.
- Q35. Has the organization experienced any billing, or revenue cutoff issues for its residential water and sewer services?
- A35. In the fall of 2015, SAWS encountered issues related to bills issued utilizing estimated water usage. At the time SAWS was estimating usage for approximately 10% of customers due to insufficient staffing levels. SAWS added additional staff and outsourced a portion of the monthly meter reading requirements. As a result of these actions, estimations have been reduced to approximately 1% of customers, well within industry averages.
- Q36. Why is SAWS seeking audit proposals at this time?
- A36. See response A1.
- Q37. How many journal entries were proposed by the prior auditor for the December 31, 2016 audit? Were there any findings?
- A37. See responses A8 and A34.
- Q38. Is SAWS involved in any litigation not included in the prior year financial statements?
- A38. Yes; SAWS is involved in various lawsuits from time-to-time arising in the ordinary course of its municipal and enterprise activities. That includes current litigation alleging that SAWS or its contractors caused or suffered personal injuries or property damage and various other liability claims; litigation involving eminent domain; and litigation involving composition of the Edwards Aquifer Authority Board of Directors in violation of federal voting rights laws. The amount of damages in some of the pending litigation in which SAWS is a defendant is capped under the Texas Tort Claims Act.
- Q39. For the SMWB aspirational goal of 40%, is the 40% intended to be in fees or hours?
- A39. See response A27.
- Q40. What were the audit fees for the December 31, 2016 audit?
- A40. See response A3.

Q41. How many auditors has it normally taken to perform audit fieldwork and how many days were spent on site?

A41. See responses A11 and A12.

Q42. Will your prior auditor be invited to bid? If not, can you provide the reasoning?

A42. See response A20.

Q43. Do you expect to have any retirement or replacement of key employees in your finance department?

A43. We do not expect any retirements or replacements of key employees in the Finance department in the foreseeable future.

END OF QUESTIONS AND ANSWERS

END ADDENDUM 2