



## Financial Services Audit Committee Communication

**Date:** January 17, 2019

**To:** Great Lakes Water Authority Audit Committee

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

**Re:** Proposed Audit Fee Change Order for the FY 2018 Audit and Other Technical Services

**Background:** The firm of Rehmann Robson was selected as auditors for the Great Lakes Water Authority (GLWA) in January 2017. The contract executed provided for the base fees only which were directly related to the audit for FY 2016, FY 2017, and FY 2018.

**Analysis:** The audit for FY 2018 was started in October 2018 and completed with the issuance the Comprehensive Annual Financial Report (CAFR) on December 14, 2018 prior to the state of Michigan's submission due date. The audit went smoothly and there were no extraordinary challenges for FY 2018 as there was with the first two audits (such as accounting for the bifurcation and implementing Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*, for FY 2016 followed by other technical matters and delays to work through to a Memorandum of Understanding for FY 2017). Nevertheless, in completing the CAFR this year, there was a substantial level of rework requested of Rehmann Robson by GLWA in revising and re-revising the various sections and items throughout the report. These changes to the CAFR were in response to investor and rating analyst feedback during the 2018 bond refunding transaction – largely driven by the complexity of the Master Bond Ordinance as well as the combination of DWSD and GLWA financial reports (DWSD was also completing their audit at the same time). These final changes then needed to be reflected in the two separate fund reports which are required for reporting the water and sewer system as separate credits. The Rehmann team incurred an additional 72 hours from December 2, 2018 through December 14, 2018 as a result of these requests. This equals approximately \$15,000 in fees for which a discount has been provided for a request of \$12,500 for additional audit fees for FY 2018 (the original fee for FY 2018 audit is \$203,908). The effective hourly rate is competitive – especially since this impacted the highest level of audit team members.

It should be noted that the GLWA Articles require that the Audit Committee recommend three audit firms to the Board every three years. Staff is presently drafting an auditing services request for proposal for the Audit Committee's review. While the current contract

with Rehmann extends to January 2020, there was no provision for additional services or consultation. With upcoming lease accounting rule changes, member partner contract matters, potential regulatory matters, and other unknown needs, staff is also requesting an allowance of \$50,000 for technical consulting services be added to bridge the gap until a new audit contract through the RFP process is completed. This was originally discussed when Rehmann was selected in 2017, but the conversation focused on the budgeted funds being available which was inadvertently did not carry forward to the executed contract.

**Budget Impact:** The auditing services account is budgeted at \$450,000 (GL# 5910-5910-884111.000-611200-WS7900). This line item does include other contracted audit services as well as the annual external audit fee and the provision for technical assistance from GLWA's auditors. No budget amendment is required to include the proposed contract amendment.

**Proposed Action:** Move that the Audit Committee recommends that the Board of Directors of the Great Lakes Water Authority approve a change order for audit services contract with Rehmann Robson in the amount of \$12,500 for the FY 2018 audit and \$50,000 for other technical professional services as needed.