



Financial Services Audit Committee Communication

Date: October 18, 2019

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA
Chief Financial Officer & Treasurer

Re: Audit Firm Staffing

Background: On June 12, 2019 the Great Lakes Water Authority (GLWA) Board of Directors appointed Baker Tilly to be the external auditors. This appointment was made after a competitive procurement which included a written proposal, proposal presentation document, and oral interview with the Audit Committee.

Analysis: In the proposal response materials, it was disclosed that Baker Tilly, *as a firm*, provides consulting services to the Detroit Water & Sewerage Department (DWSD). It was *not* disclosed in the written materials, or in the oral interview, however, that staffing, including assignment of the audit partner, would overlap the GLWA audit and the DWSD consulting project. While the two entities, DWSD and GLWA, enjoy an exemplary level of collaboration, there is a material business element to the relationship and points of legal clarification which involve financial amounts in the normal course of operations and/or arbitration to clarify certain matters given the complexities of the leases.

Over the course of the past few weeks, it has been discovered that staffing, including assignment of the GLWA audit, overlap the DWSD and GLWA assignments. Given the key role of the audit partner in conferring with GLWA on certain sensitive legal and financial matters, the GLWA management team is concerned that a potential conflict of interest exists either in fact or in appearance. Further, the familiarity of staffing between the two entities, including one known audit staff member who has security badge access between the two entities' offices may provide an opportunity that certain matters may be inadvertently or inappropriately be shared between the two entities.

The GLWA management team has brought this concern to the attention of Baker Tilly. The response is attached.

For reference, excerpts from Baker Tilly audit services proposal are below followed by an excerpt from the contract for services.

4. Describe your knowledge of local conditions, GLWA requirements and procedures, and how the proposing firm's knowledge will benefit the engagement.

Baker Tilly's Detroit area office is located in Southfield, just a just a short 20 minute drive from GLWA. The office opened in 2003 and is home to 97 employees, including 10 partners. Our firm's Chief Executive Officer, Alan Whitman, is based in Detroit — along with Laurie, the local office liaison partner assigned to your engagement. Our employees and partners are deeply involved in the local community, volunteering their talents and time in support of local organizations like Gleaners Community Food Bank of Southeastern Michigan, Susan G. Komen Foundation, Cornerstone Schools, Habitat for Humanity, March of Dimes and the Michigan Humane Society. Many of our team members also serve on boards of directors and committees.

In addition to providing audit and advisory services to hundreds of local clients in a variety of industries, Baker Tilly is currently engaged in a multi-year project serving as DWSD's outsourced compliance management function, documenting and make recommendations to improve policies and procedures, assisting in designing and improved internal control environment, providing training on policies and control, and performing risk-based monitoring and internal audit type activities.

Baker Tilly's in-depth knowledge of local conditions — coupled with our expertise in auditing numerous utilities like GLWA throughout the country — means we are well positioned to understand your requirements and procedures and add value to your audit.

11. Describe any conflicts of interest, real or perceived, in performing the audit for GLWA with other clients and how your firm would address such conflicts.

Baker Tilly's quality control policies and procedures are in place to monitor our compliance with the independence standards governing our profession. Annually, we require all staff members to complete and sign representations regarding their compliance with the firm's and our profession's independence policies and procedures. As part of this process, selected partners and managers verify compliance with independence requirements and we conduct firmwide conflict checks prior to accepting attest work for publicly traded companies. We also maintain a real-time list of those companies in which investments may be prohibited.

As part of GLWA's engagement planning process, we will ensure the independence of your engagement team members, management-level personnel and other applicable individuals in the firm.

B. Experience and Qualifications

1. Explain how the engagements noted above provide you the ability to be uniquely qualified and experienced to fulfill GLWA's audit requirements including the location of the office from which the engagement was performed, and the size of the audit team assigned to the engagement.

As described in detail in the **Executive summary**, **Firm profile** and **Specialized audit services** sections of our proposal, Baker Tilly is uniquely qualified to fulfill GLWA's audit requirements due to the following factors:

- Utility specialization and knowledge, serving more than 600 utility clients nationwide
- Specialized public utility audit expertise extending across more than 40 states
- Exemplary record of assisting clients in achieving the GFOA Certificate of Achievement for Excellence in Financial Reporting for their CAFR
- Single audit capabilities, performing more than 500 single audits each year
- Experience with bond issuance services and recognition by bond rating agencies
- Large firm resources with responsive client service from our Detroit office

Baker Tilly strives to assign staff based on skill set, rather than location. We have assembled a team that best fits the needs of your audit, utilizing several offices to bring our finest talent to GLWA. This team will be centrally managed from our Madison, Wisconsin office — the home of our energy and utilities team — with seamless support of local Detroit office resources.

This arrangement provides you a team with relevant industry knowledge, best practices they can share with you and practical solutions to issues that may arise. It has been very successful for many other clients, including the **DWSD**, and we will strive to make it successful for you. We will schedule on-site meetings and fieldwork to meet your schedule and provide same-day responses to your questions.

The proposed audit team for GLWA consists of four partners, one audit manager and a pool of utility-specialized senior and staff accountants. The deep resources of our energy and utilities team enable us assign as many additional team members to your engagement as necessary to meet and exceed your audit requirements.

Contract excerpt:

6.02 GLWA may interview Consultant's managerial staff and other employees assigned to this Contract. Consultant shall not use any managerial staff or other employees to whom GLWA objects and shall replace in an expedient manner those rejected by GLWA. In the absence of circumstances beyond its control, Consultant shall not, without the prior written consent of GLWA, remove or replace any Associate acceptable to GLWA with a new Associate until this Contract is terminated. Immediately upon receipt of written notification by GLWA, Consultant shall replace any Associate, including the Project Manager. In all cases in which an Associate must be replaced for any reason, Consultant shall supply an acceptable replacement as soon as possible, and shall not substitute a lower classified or less qualified Associate to perform the Services without obtaining the prior written approval of GLWA. Consultant will furnish the replacement Associate on a no-charge basis for the time necessary, as agreed to by GLWA, for any training or job orientation.

Proposed Action: Material is presented for discussion.

Memo

To: Nicolette Bateson, CPA,
Chief Financial Officer/Treasurer Great Lakes Water Authority

From: Jodi Dobson, CPA, Partner

Date: October 7, 2019

Subject: Independence

This memo is in response to your inquiry into Baker Tilly's evaluation of our independence given that both the Great Lakes Water Authority and the Detroit Water and Sewer Department are clients of the firm.

Baker Tilly and our partners and staff are independent with respect to the Great Lakes Water Authority as defined by generally accepted auditing standards and the U.S. General Accountability Office's (GAO's) *Government Auditing Standards*, and we will maintain an independent attitude and appearance through the full term of the engagement.

Formal independence guidelines are contained in our Employee Handbook based upon rules and regulations established by the Comptroller General of the United States and the AICPA. Baker Tilly's quality control policies and procedures are in place to monitor our compliance with the independence standards governing our profession. Annually, we required all staff members to complete and sign representations regarding their compliance with the firm's and our profession's independence policies and procedures.

The AICPA Cod of Professional Conduct (Code) is based on the principles of public interest, integrity, objectivity and independence, and due care. Integrity requires a member to maintain client confidentiality. The Code defines *confidential client information* as any information obtained from the client that is not available to the public.

Our team has extensive experience serving governmental entities or agencies that have unique relationships such as:

- joint action agencies and their municipal utility members
- regional treatment facilities and their municipal customers
- municipalities and their joint venture special purpose districts or
- municipal utility districts and their joint power authorities for financing
- neighbouring communities that have joint service or shared service contracts
- counties and the local municipalities that they provide funding or services to

We pride ourselves on the ability to maintain our independence, in both appearance and in fact, in these situations. While we provide expertise, specialized knowledge and industry insights to our clients, we are careful not to make management decisions or act in any capacity that would result in us serving as management.

For any situation that is not specifically addressed by independence, integrity, and objectivity rules, the firm applies the Conceptual Framework within the AICPA Code of Professional Conduct to evaluate the situation and determine appropriate action to mitigate with effective safeguards.