



Legislation Details (With Text)

File #: 2017-379 **Version:** 1 **Name:**

Type: Resolution **Status:** Passed

File created: 9/8/2017 **In control:** Board of Directors Workshop Meeting

On agenda: 9/13/2017 **Final action:** 9/13/2017

Title: Contract No.: GLWA-CS-132, Change Order No. 1, External Auditor Services

Sponsors: Nicolette Bateson

Indexes: Finance

Code sections:

Attachments:

Date	Ver.	Action By	Action	Result
9/13/2017	1	Board of Directors Workshop Meeting	Approved	Pass

Contract No.: GLWA-CS-132, Change Order No. 1, External Auditor Services

Agenda of: September 13, 2017
Item No.: **2017-379**
Amount: \$127,508.00

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: September 8, 2017

RE: **Contract No.: GLWA-CS-132, Change Order No. 1, External Auditor Services**

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer/Treasurer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA) authorizes the Chief Executive Officer (CEO) to **enter into Change Order No. 1 Contract No. GLWA-CS-132, "External Auditor Services" with an increase of \$127,508.00 for a total cost not to exceed \$863,516.00** and to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

The firm of Rehmann Robson was selected to provide auditing services for the Great Lakes Water Authority (GLWA) in January 2017. The timing of this selection was performed sequentially and in coordination with the City of Detroit who appointed a new audit firm late in calendar year 2016 for the year ended June 30, 2016. Given that this was the inaugural audit for the GLWA, the timing and completion of the audit for the predecessor entity, the City of Detroit Water & Sewerage Department (DWSD), was a critical path item.

At the time that GLWA was seeking audit proposals, it was anticipated that the City and DWSD’s audited financial reports would be completed by March 31, 2017 however, that date was subsequently extended until May 31, 2017. The City’s report was filed on May 31, 2017. Separately, on May 19, 2017, it was decided that all parties would be best served by a six-month audited financial report of DWSD through December 31, 2015 to support the opening statements of net position on January 1, 2017 for the regional and local systems. That report was issued in mid-July 2017.

The GLWA’s request for proposal was based upon the City’s initial audit filing date of March 31, 2017 and is shown below.

V. Project Schedule

While GLWA’s *targeted* milestones and *desired* durations for the various phases of this project are shown in the table below, the contractor is fully responsible for preparing its project approach, work plan, schedule and cost proposal based on its experience in executing this type of project and shall not use GLWA’s targeted milestones and desired durations to limit its responsibility under the contract. The only exceptions being a task or tasks where GLWA has specified the number of hours to be provided by the consultant or where GLWA has included a specified allowance.

Project Phase / Milestone	Task Duration / Milestone Date
YEAR 1	
GLWA Schedules Provided	February 1, 2017
CAFR Completed	April 15, 2017*
Audit Opinions on Financial Statements	April 15, 2017*
Single Audit Reports	April 15, 2017*
*It is assumed there will be extensions filed with the State of Michigan.	

Beyond the City’s timing, finalizing the first year-end financial close and developing the first comprehensive financial report (CAFR) created inefficiencies for the auditors such as staff reassignments and validating multiple general ledger uploads. Further, the auditor’s engagement was to process the first CAFR. Lastly, the capital asset valuation report excluded formulas that the appraiser considered proprietary. As a result, additional analysis and interfacing with the valuation company was necessary in order to gain “audit comfort” with the acquisition values.

JUSTIFICATION

The table below summarizes the number of budgeted versus actual hours and dollars based upon

the July 31, 2017 completion of the audit. It is proposed that Rehmann Robson's contract for the FY 2016 audit be increased by \$127,508 for a total of \$863,616.00. The proposed contract amendment represents a negotiated adjustment to 67.5% of the overage.

**Great Lakes Water Authority
Audit Fee Analysis Fees for the Year Ended June 30, 2016**

Category	As Proposed and Awarded	Actual Hours	Variance (over)/ under
Risk assessment and other preliminary procedures	248	224	24
Opening balances and other related allocations	288	188	100
Year-end fieldwork	780	1,664	(884)
Reviews, report preparation and project management	208	561	(353)
Total estimated hours	1,524	2,637	(1,113)
Fees	\$ 333,600	\$522,500	\$ (188,900)
Recommend negotiated contract adjustment @ 67.5% of overage due to extenuating circumstances			\$ (127,508)
Effective hourly rate (Total Proposed Fee Divided by Actual Hours)			\$ 175

For comparison, the incumbent auditor submitted a fee to GLWA of \$630,275 with 3,150 hours and an effective hourly rate of \$200 when proposals were received for the FY 2016 audit. Even with the change order, the Rehmann Robson fee is lower. In addition, the City approved a change order in a similar proportion recognizing the additional efforts of its auditors.

The table below reflects the contract value following approval of this change order.

Fiscal Year	Original Fee	Change Order #1	Revised Fee including Change Order #1
FY2016	\$333,600.00	\$127,508.00	\$ 461,108.00
FY2017	\$198,500.00	\$ -	\$ 198,500.00
FY2018	<u>\$203,908.00</u>	<u>\$ -</u>	<u>\$ 203,908.00</u>

Total Contract \$736,008.00 \$127,508.00 \$ 863,516.00

BUDGET IMPACT

To the extent that there are not savings in the Financial Reporting & Accounting cost center, a budget amendment from unallocated reserve would be required. There are sufficient funds in that unallocated budget reserve.

COMMITTEE REVIEW

The Audit Committee unanimously approved the proposed change order at its meeting on September 1, 2017.

SHARED SERVICES IMPACT

This item does not directly impact the shared services agreement between GLWA and DWSD.