

ADDENDUM NO. 1

DATE: January 11, 2023
TO: All Proposers
FROM: Penny Owens, Purchasing Agent
SUBJECT: Addendum No. 1 – Professional Auditing Services
PROPOSALS DUE: January 13, 2023*** at 11:00:00 a.m. (Eastern Time)

This addendum provides responses to questions from potential proposers and extends the deadline for proposal. This addendum becomes a part of the Contract Document and modifies the originals specifications as noted below.

ITEM #1: Postponement of due date. ***This addendum hereby postpones the deadline for proposals to **Tuesday, January 17, 2020 at 11:00:00 a.m. (Eastern Time)**

ITEM #2: Response to Questions submitted.

Question #1: What is the reason for issuing an RFP?

Response: The existing contract is expiring with no renewal options left.

Question #2: Is there a mandatory rotation requirement?

Response: No.

Question #3: Are the current auditors eligible to submit a proposal?

Response: Yes

Question #4: Has the incumbent auditor used a minority firm and if so, which minority firm and in what capacity have they assisted historically?

Response: No, they have not utilized a minority firm.

Question #5: What were the audit fees for the audit for fiscal years 2020, 2021 and 2022?

Response: The fees to the City were \$164,500 for FY20, \$169,500 for FY21, and \$169,500 for FY22. The fees to the System were: The fees for the System were \$27,500 for FY20, FY21 and FY22.

Question #6: In what areas can your auditor create added value for the City?

Response: Ensuring that the City is adequately implementing all new GASB pronouncements. In other words, the City does implement new GASB pronouncements to standard when they come out, but advice from an experienced auditing firm would also assist.

Question #7: How has Internal Audit historically assisted with the external audit?

Response: The Internal Auditor traditionally stays abreast of the progress of the audit, any potential concerns, and relays the status to the Audit Committee comprised of some members of City Council. Additionally, the Internal Auditor sets up the final out-brief of the auditing firm to the members of the Audit Committee. The Internal Auditor also coordinates execution of the auditing contract and works with the external auditor to file required documents with the state.

Question #8: Are there any areas within the audit or the City's operations that impact the audit that is of special concern to management or the board?

Response: No

Question #9: Is the transition to a new auditor a concern? If so, why? What would lessen your concern?

Response: The biggest area of potential concern/focus is to ensure the City acquires an auditing firm with the experience and capability to effectively handle the depth, breadth, and complexity of an audit for a city the size of Knoxville.

Question #10: May we obtain a copy of the 2022 internal control letter (management letter) if available?

Please find the internal control letter attached.

Question #11: May we obtain a copy of the 2022 engagement letter(s) associated with the audits included within the scope of this RFP?

Response: Please find the engagement letter attached.

Question #12: How would you describe the City's and System's internal control environments?

Response: Due to the City's recent change in leadership and accounting staff, we have made the review of our internal control environment a top priority. This has enabled us to ensure we have sufficient internal controls throughout the City.

Question #13: Do you anticipate the level of federal and state funding for the City to be different for FY 2023? Are there any significant changes in federal funding anticipated for 2023? How many major programs are anticipated for 2023?

Response: Yes – the most significant change is the City is unlikely to receive the \$40(+)M from the State (TDEC) and Federal Government (ARPA) that it did during FY 22. We had 2 major programs for FY2022 and anticipate 2-3 for FY2023.

Question #14: What was the nature and magnitude of any audit adjustments for the FY 2022 audit, if any?

Response: Our FY22 audit is not complete, but we do not anticipate any.

Question #15: What are the most significant challenges faced during the FY 2022 audit, if any?

Response: During our FY21 audit, a large portion of one of our major programs was not included on our SEFA. As a result, this required additional testing of prior year transactions in addition to the testing requirements for the current year.

Question #16: What financial systems does the City and System use and does either entity anticipate any significant changes to their systems during the term of this engagement? What computer systems are used for general ledger operations? Which systems manually interface with the general ledger? Which systems automatically interface with the general ledger?

Response: The City uses Oracle Financials as its primary ERP and the only hoped for change to this system are some upgrades to the system. Oracle is used for City GL operations and there are no other systems that manually interface with our general ledger.

The System uses Excel Spreadsheets for general ledger and journal entries. We are switching to BlueFin for our database system in February 2023 from Access. We have been running parallel for the past 6 months. We utilized Northern Trust as our custodian for investments, member payments and accounts payable. When we switch to BlueFin we will interface with Northern Trust for updating monthly benefit payments. We have SOC reports for both BlueFin and Northern Trust.

Question #17: How long were the auditors in the field for interim and final fieldwork and how many people for the City as well as the System?

Response: For the City, the auditors are on site for 2 weeks of interim fieldwork and 6-8 weeks for final fieldwork. For the System, interim work was about a week, sometime in May or June depending on the auditor's schedule. We prefer late May.

Question #18: RFP Section V, 5.6 refers to a cybersecurity risk assessment. Could you elaborate on the expectations of this assessment? Have any deliverables associated with this cybersecurity assessment been provided by the incumbent auditor, and if so, could a copy of that deliverable be provided?

Response: The City responded to the questions asked by the auditors in the attached 2021 IT Assessment Artifact Request List.

Question #19: What has been the approximate start and end dates of audit fieldwork for the City and the System? What has been the approximate start and end dates of preliminary audit fieldwork for the City and the System performed before June 30.

Response: Interim fieldwork for the City is usually performed throughout the month of May and the final field work is usually performed from Sept through October.

Interim fieldwork for the System as mentioned above would be one week in late May. Final fieldwork is usually after the 2nd Thursday of the month of September to avoid the Pension Board monthly meeting and usually takes a week. We do have alternative investments so the final June numbers on those investments won't be available until the first part of October so some work will need to be done after those are provided, but can be done remotely.

Question #20: Has the current auditor been performing City/System fieldwork remotely?

Response: The current auditor performs some of the work on-site and some remotely. The mix of time spent on-site and remotely is appropriate.

Question #21: What is the expectation of when a draft financial statement of KUB and MKAA is available from the component auditor?

Response: KUB normally provides their audited financial statements in late October of each year and the MKAA provides their statements in mid November.

Question #22: Have there been significant review comments from the GFOA or Comptroller's Office in the last two years for the City or the System?

Response: No.

Question #23: Are Capital Assets maintained in the primary accounting software, excel or a combination?

Response: Capital Assets are maintained in the primary accounting software, but some additional tracking is done on excel spreadsheets.

Question #24: Who prepares the SEFA? The City, the audit firm, or a combination?

Response: The City prepares the SEFA, and it's submit it to the Federal Audit Clearing House

Question #25: Has the current audit firm presented material audit adjustments or passed adjustments to the City/System? If so, what is the nature of these adjustments.

Response: No

Question #26: Are there any improvements you would like to see in the audit process?

Response: Perhaps an added focus on ensuring we have adhered to all of the relatively new GASB pronouncements.

Question #27: Are there any significant changes in operations in the current year vs. the prior year including changes in policies and procedures, personnel, or the reporting entity?

Response: The only significant changes are that the City has hired multiple new Financial Analysts to replace about 3 or 4 Finance personnel who retired within the past few years. As such, these newer analysts are continually learning the City's systems and practices and are coming along nicely.

Question #28: Please comment on and/or provide a listing of audit schedules provided by the City of Knoxville to the auditor?

Response: The City provides a list of financial analyst their area of focus/responsibility for the work provided for the audit

Question #29: Please comment and/or provide a listing of findings or comments made by the auditor to the governing body. Are copies of all auditor submitted documents from the prior year available for review? (i.e. management letter, governance communication)

Response: Copies of all auditor submitted documents from prior years are available for review and there have not been any material findings for the past several years.

Question #30: Any items in management letters that have been subsequently addressed?

Response: No.

Question #31: Please comment on extent of decentralized operations within the City of Knoxville? Describe any decentralized accounting functions that may require site visits during the audit.

Response: There aren't any decentralized operation within the City of Knoxville.

Question #32: Please comment on the City of Knoxville's quality of the documentation of the accounting systems, policies and procedures.

Response: The City has policies and procedures for the following and all are actively adhered to: An internal controls manual, a Records and Retention Schedule, Procurement Policies and Procedures, a Fund Balance Policy, an Investment Policy, and Debt Policy, a Stabilization Fund/Account Resolution, and Purchase Card Policies and Procedures. Kittrin – if I've missed the intent of their question above, then revise this as needed – I'm just not sure.

Question #33: In an effort to understand the level of effort currently exerted by the current auditing firm, please provide (a) hours billed (b) prior year fees

Response: We do not receive invoices for hours billed. Rather, we have a contract with a firm fixed price with the auditors to include escalation clauses as needed.

Question #34: How many years have the current auditors being serving the City of Knoxville? How many years have the current engagement partner/principal served the City of Knoxville?

Response: The current auditor has been auditing the City and the "System" for a total of 10 years. This includes the base contract and the renewal options that were available.

Question #35: Are you satisfied with the current auditors (a) timeliness (b) pro-activeness on communications (c) involvement outside of the audit process and (d) value they provide to your organization?

Response: The City is satisfied. The Internal Auditor indicates dissatisfaction with the current auditors.

Question #36: Has there been any disagreement with the current auditor firm? If yes, please provide some background on the issue.

Response: The City has not had, and does not have, any disagreement with its current auditor

Question #37: Has there been any untimely (not retirement related) resignations of management level employees?

Response: The previous CFO for the City accepted a position at the MKAA in the summer of 2022.

Question #38: Has the City of Knoxville investigated a fraud in the last two years?

Response: Yes – in FY 21 although said fraud did not involve the City's Finance Department but rather a contractor for the City.

Question #39: What are the two most significant issues facing the City of Knoxville in the next two years?

Response: The Mayor and several Council members will be up for re-election and the City will not be receiving the multi-million dollar grants (ARPA and TDEC) that it has for the past few years.

Question #40: Describe any relationships with third party service providers used by the entity that may have an impact on the accounting or financial reporting of the entity (i.e. ADP, Paychex, etc).

The City doesn't have any relationships with third party service providers that would impact the accounting/financial reporting.

Question #41: In the previous three fiscal years, have there been any additional billings/change orders related to the audits in excess of the fixed base fees? If so, to what extent and for what reason(s)?

Response: No, the City has not experienced this with regard to the audit contract.

Question #42: Will the City of Knoxville accept an electronic signature on the proposal forms and documents?

Response: Yes.

Question #43: Given the rising technology costs all organizations are expending to serve and protect client information, we are adding a technology and client support fee to all of our invoices. In addition to our fixed fee, are you comfortable with us including a 5% technology fee to our professional fee

Response: It depends on what the total cost would end up being (i.e. base fee + 5%). Without knowing these figures, the City cannot completely answer this question. If a proposer intends to include a 5% to all invoices, please indicate so on the proposal for consideration in total cost.

NOTE: The following questions and responses are specific to the City:

Question #44: Are there any issues with the current auditor?

Response: No, there are not.

Question #45: Were there any journal entries discovered by the auditors during the fiscal years 2022 and 2021 audit process?

Response: There weren't any journal entries discovered by the auditors during the FY2021 or FY2022 audit. During our FY21 audit a large portion of one of our major programs was not included on our SEFA. The information was included in our Statements, but was not included on the SEFA. As a result, this required additional testing of prior year transactions in addition to the testing requirements for the FY2022 audit.

Question #46: RFP Section V. 5.3 references an Appendix for ACFR preparation Finance/Auditor responsibilities for the City. Could you confirm that it is managements expectation that the auditor assists in the preparation of the full ACFR including the Letter of Transmittal, Management Discussion and Analysis, Required Supplementary Information, the Statistical Section, as well as the Schedule of Expenditures of Federal and State Awards?

Response: Yes – the auditor will be responsible for assisting in the preparation of all these documents. However, the City takes a very active role in preparing the MD&A, LOT, and all notes to the financials. The City also prints and duplicates the ACFR.

Question #47: Is it the expectation is that the auditor prepare the ACFR (page 4 of the RFP) and the City will print it (page 6)?

Response: Yes

Question #48: Do you have a preference for in-person, remote, or hybrid fieldwork?

Response: A hybrid approach is perfectly acceptable and makes sense on a practical level as long as the auditor is responsive.

Question #49: Is it expected that the Single Audit follows the timeline on page 7 of the RFP?

Response: Yes, but the City understands that some adjustments may be made to the timeline.

Question #50: Does the City intend to provide the auditors with read-only access to certain aspects of the accounting system?

Response: Yes

Question #51: Does the City use a software solution for the implementation of GASB 87? If not, what is the strategy to calculate the lease asset/liability?

Response: The current auditing firm provided the City a software solution for implementation of GASB. The City does not have its own software for this.

Question #52: What is the City's plan for the implementation of GASB 96? Specifically, is there a software solution that will be utilized?

Response: Yes, the City is using Lease Crunch software for GASB 87 and intends to use it for GASB 96.

Question #53: Outside of the audit process, what does the City find/define value from its auditors?

Response: "Value," in this context, is defined as performing an in depth objective audit to ensure the City's financial statements and financial activities conform to both GAAP/GASB pronouncements, proper internal controls are in place/functioning, and that the resulting financial statements for the ACFR are presented fairly and accurately for both top management and the public at large.

Question #54: Were there any major audit or accounting issues identified for fiscal years 2022 and 2021? Any anticipated ones for 2023?

Response: During our FY21 audit a large portion of 1 of our major programs was not included on our SEFA. The information was included in our Statements, but was not included on the SEFA. As a result this required additional testing of prior year transactions in addition to the testing requirements for the FY2022 audit.

Question #55: What part of the audit process would the City like to improve over the past audits?

Response: The timeliness of receiving the financial statements back from the auditors. To be perfectly honest, we've been a little slow in this area for the past few years with much of this concern resting with the actions of the City and (in the past) being short staffed and, to a lesser extent, with the auditors.

Question #53: What transition issues would the City be concerned about if the audit is awarded to new auditors?

Response: As mentioned previously, the City is concerned about/focused on contracting with an auditing firm with the experience and qualifications to audit a City the size of Knoxville. Part and parcel to this concern is the time/effort it will take for a new auditing firm to get “up to speed” on the way the City of Knoxville’s financials work, mapping our process, and so forth.

Question #56: Have there been any significant changes in key staff in the past year that would affect the fiscal year 2023 audit?

Response: The previous CFO accepted a position with the MKAA last summer but this should not affect the upcoming audit as the current CFO and Deputy CFO have the requisite level of experience to ensure the audit is done to standard.

Question #57: Assuming each bidder’s proposed fees are equal, what is the next most important thing to the City?

Response: See the point allocation spread in the evaluation criteria for the RFP.

Question #56: What is the City’s process for implementing significant new standards making sure they are implemented across all entities within the ACFR?

Response: Understanding any new GASB pronouncements, discussing how to implement them with the auditor and then working closely with the auditor to ensure said pronouncements are implemented to standard.

NOTE: The following questions are specific to the Pension System:

Question #58: How many copies of the System’s audit report should be provided as requested in RFP Section V. 5.2?

Response: We need the electronic copies for GFOA submission and for our website with 10 hard bound copies front to back.

Question #59: Were there any journal entries discovered by the auditors during the fiscal years 2022 and 2021 audit process?

Response: No. Since we have alternative investments that are at NAV we keep our books open until October for those and record them.

Question #60: With the System preparing the ACFR (page 4), is it accurate that the auditor will print it (page 6)?

Response: Yes. The Auditor provides bound copies of the report as mentioned above.

Question #61: Do you have a preference for in-person, remote, or hybrid fieldwork?

Response: We prefer mostly in person for fieldwork, but understand that some things will be handled in the office like the alternative investment confirmations for the alternative investments.

Question #62: What involvement in the external audit process does the System expect the System Internal Auditor to have, if any?

Response: The System does not have an internal auditor.

Question #63: Does the System intend to provide the auditors with read-only access to certain aspects of the accounting system?

Response: We are in the process of transitioning to BlueFin and it is our understanding that the auditors will have read-only access to that system. Northern has an auditor's packet that is provided.

Question #64: Outside of the audit process, what does the System find/define value from its auditors?

Response: We occasionally will ask tax questions for both members and the occasional foreign tax question. We do like to run our interpretations of new GASB standards, where applicable, by the auditors should the need arise.

Question #65: Were there any major audit or accounting issues identified for fiscal years 2022 and 2021? Any anticipated ones for 2023?

Response: None and none are anticipated.

Question #66: What part of the audit process would the System like to improve over the past audits?

Response: Timely communication between the auditors and management.

Question #67: What transition issues would the System be concerned about if the audit is awarded to new auditors?

Response: None that we are aware of at this point.

Question #68: Have there been any significant changes in key staff in the past year that would affect the fiscal year 2023 audit?

Response: No. We have four people on staff and everyone has been in their positions at least three years.

Question #69: Assuming each bidder's proposed fees are equal, what is the next most important thing to the System?

Response: The auditor needs to have expertise with governmental defined benefit pension plans and know the difference between a pension plan and a 401(k) plan. The auditor needs to be able to perform efficient testing of the System's database as compared to the City's payroll system by utilizing data extraction software and providing the entire results of the comparison to the System's management.

Question #70: What is the System's process for implementing significant new standards?

Response: The Executive Director researches the standard and determines the impact on the System. If reporting changes are required, she drafts the section of the report in advance and provides it to the auditors for review and consults in advance as needed.

Question #71: Are any of the hard to value investments audited financial statements prepared in a basis of accounting other than US GAAP?

Response: No. We have some assets that are valued at NAV, but the financials of those investments are provided.

Question #72: With regard to the System's real estate portfolio, how are the underlying assets valued (except those in a limited partnership or similar)?

Response: All real estate investments are in commingled funds and valued at NAV. We have no direct investments for any of our investments.

Question #73: How long does the System leave its books open to record the final fair value for the hard to value, private equity and real estate investments?

Response: We leave our books open until mid-October to capture those investments as mentioned in question 1 above.

END OF ADDENDUM NO. 1