

April 30, 2014

TO: ALL OFFERERS

FROM: Kathleen A. Davies
Chief Administrative Auditor

SUBJECT: ADDENDUM TO INVITATION TO BID – RFP14-CPA-04, State of Delaware
CAFR and OMB Circular A-133 Audits

ADDENDUM #1

Please note: The attached sheets hereby become a part of the above mentioned RFP.

To clarify the proposal submission process, firms must submit their proposals in **three, separate files**: Mandatory Criteria section, Proprietary section, and Cost section.

The Office of Auditor of Accounts (AOA) received the following questions for clarification in response to its RFP posted on April 22, 2014.

1. Do you want a fee for the option years in the cost proposal?
No, none requested nor required. See option to renew at 3.1 of the RFP.
2. Are the component unit reports received timely for inclusion in the CAFR?
As far as AOA is aware, there have not been issues with the timely receipt of component unit reports in recent years. However, the Firm is advised to be prepared for contingencies and delays and should demonstrate a strong project management approach to notifying the auditee of the consequences of various engagement delays.
3. Do you anticipate any changes to the reporting of the component units under GASB 61?
No, however, it is the State's management's responsibility to assess any changes each year. See note on project management in #2.
4. Who prepares the financial statements and footnotes?
The State's Division of Accounting prepares the financial statements and footnotes.
5. How many audit adjustments were made in the prior year and to what funds and areas?
The number of audit adjustments was addressed at #5 in Appendix F of the RFP. Of those adjustments, 8 uncorrected adjustments were government-wide and impacted workers' compensation expense, revenues and expenses at school districts, accounts receivable, investments, allowance for doubtful accounts, and intergovernmental receivables. The remaining uncorrected adjustment related to business activities and impacted escrow deposits. Of the 5 correct adjustments, 4 were government-wide and one related to business activities. These impacted accrued liabilities (contingencies),

grants receivables, loan receivables, allowance for doubtful accounts, and reclassification due to GASB 61 impact.

6. Who prepares the schedule of federal awards?
The State's Division of Accounting (DOA) prepares the SEFA.
7. When is a complete set of draft financials available?
Based on historical experience, the firm should plan to manage the process and deliverables/milestones expecting numerous requests for delays and drafts that need significant edits. See #2.
8. Who takes the lead in the implementation of new GASBs?
It is the State's management's responsibility to implement new GASBs. The State does not take a proactive approach to researching and implementing new GASBs. The implementation of GASB 61 was not timely.
9. What was the staffing of the prior year audit by level and hours?
Details of prior hours would be misleading since the approach is changing significantly.
10. Are the financial systems for DHSS, Delaware Technical and Community College and DOE included in the work to be done in RFP14-CPA-03?
No, the 7 financial systems described in RFP Section 4.1 are not included in RFP14-CPA-03.
11. Are the School Districts included in the State's accounting and payroll system or do they have separate accounting systems for each school?
Yes. All 19 School Districts are included in FSF and PHRST.
12. To clarify the RFP, is the auditor is only responsible for the A-133 audit for DeIDOT, Delaware State Lottery, DPERS and OPEB?
The auditor chosen for RFP14-CPA-04 is responsible for the Statewide A-133, which includes DeIDOT, Lottery, DPERS, and OPEB, among others. Separate contracts for the financial statement audits of these entities do not include audit responsibilities under A-133.
13. What assistance is provided to the audit firm from state personnel during the audit?
Please detail the type of work and hours.
The State does not have an internal audit department nor does it perform work that could be substituted for the work of the Firm under contract. The firm should plan to do all work relevant to the scope and objectives of the RFP. Also see #2.

14. Who is the actuary for the pension fund?
15. Who is the trustee of the assets of the pension fund?
16. Who is the actuary for the OPEB?
17. Who is the trustee for the assets of the OPEB trust?
This information is not relevant as DPERS and OPEB Trust are handled in separate contracts.
18. Is the local school district fund on the state accounting system?
Yes. See #11.
19. Any new debt to be issued?
To be determined by the firm as part of planning. There should be plans to address new bond issuances each year of the engagement.
20. Who is the actuary for the workers compensation liability amount?
To be determined by the firm as part of planning.
21. Section 4.1 of the RFP on page 4 indicates that DelDOT, the Lottery, DPERS and the OPEB Trust are not included in the CAFR audit but are included in the Single Audit. Will the independent auditor be permitted to refer to the work of other auditors in the independent auditors' report?
Yes, for the CAFR audit. The firm selected for RFP14-CPA-04 is expected to audit the federal expenditures Statewide, including the agencies listed above.
22. Questions 2 and 3 in Appendix F indicate certain information will not be applicable "given the new approach". Can you please clarify what you mean by "given the new approach"?
This contract previously included multiple audits of various agencies. Additionally, AOA is looking for the firm to conduct more interim testing and use an innovative approach to performing the audits.
23. Question 6 in Appendix F indicates that the responding firm is expected to reflect any and all accounting and standards changes in its presentation. Can you provide any information that has been developed to date by the State on the impact of the implementation of future GASB pronouncements, especially GASB 67 and 68?
Based on historical experience, the firm should make provisions to perform a significant amount of project management to address the delays typically experienced with untimely implementation of new GASBs and GASB updates.
24. Does the State's internal audit function or the State Auditor's Office provide support to the external auditors or can any of their work be relied upon by the external auditors? If yes, please explain the scope of their work.
The State does not have an internal audit function. As a separately elected office, AOA is an independent audit function of the State. AOA should not be confused with the Executive Branch of Government. Any reliance on work performed by AOA can be discussed with the firm once the contract has been executed. Further, AOA will not be

held accountable for DOA's failure to perform management functions. The firm works on behalf of AOA, in lieu of AOA doing the audit directly.

25. Does the State have legislative requirements or pressures that directly affect the scope, nature, and timing of the audit? If yes, please explain.
AOA is unclear about the nature of the question. All code is published on the State's website and nothing comes to AOA's attention that merits reference.
26. Please explain how the audit is currently segmented with the current service provider. Does this segmentation work? Can you provide a recent project timeline used for 2013 financial and compliance audits?
AOA is requesting that the firm awarded the contract take an approach that fits with system user's internal control processes and provides interim testing. Utilizing and referencing the prior approach will not be accepted by AOA. Further, as noted in #2. AOA is looking for a firm that will follow a timeline and not constantly compress the audit firm's time to perform the audit. Findings identified during interim testing will be presented to the auditee and, if possible, corrected prior to period closing.
27. Does the State have a task force or similar body established to address the recent grant reforms and new Super Circular (A-133 guidelines)? If yes, please explain.
AOA is not aware of any. The State agencies are very segmented and typically work on their own to address changes in guidance and requirements.
28. Can you provide a copy of the closing instructions provided to the state agencies?
Information communicated to State agencies is available at:
<http://accounting.delaware.gov/InfoForGovernment.shtml>.
29. With respect to the school districts, do they have separate accounting functions (software and people)? Do they follow standardized accounting (chart of accounts and reporting requirements)? Are the audited financial numbers used for aid distribution/allocation? Are there reporting requirement related to pupil counts? Are the records available at a central location or are they maintained at each school?
The 19 School Districts each have their own accounting function and maintain records at their individual locations. All School Districts use FSF and PHRST for accounting and payroll and, therefore, follow the State's standardized accounting. AOA believes that funding is mainly distributed by student population obtained through the Unit (Enrollment) Count, which is an annual process coordinated and managed by the State Department of Education.
30. Has the Federal government inspected any agencies or departments in the last 24 months and can we review the results of the inspections or be provided with a summary of the results? Has any Federal agency increased the level of oversight based on any regulatory review? If yes, please provide a brief description.
AOA does not have comprehensive information on this and does not believe that there is a central location where this is reported within the State.

31. What has the State done to prepare for the preparation of GASB 68?
AOA is not aware of any preparation for GASB 68. Please see the response to #8 above.
32. Does the State anticipate [any changes] in currently used major software applications?
Please explain.
All known software application information has been disclosed. Any changes will be addressed during planning.
33. Page 7, Section 4.3 Deliverables, item (i) Irregularities and illegal acts – Will AOA work to determine the appropriate course of action in collaboration with the CPA Firm?
Yes. However, AOA will take the lead in determining the course of action.
34. Page 13, Section 8 Mandatory Requirements Section, item (c) Firm Qualifications and Experience – Do the terms “joint venture” or “consortium” include Firms that are otherwise unrelated (i.e. not member firms or affiliates) that team together for purposes of this proposal?
Anything that can construed as subcontracting or is questionable as far as a joint venture or consortium is concerned should be presented in detail in the proposal for AOA’s assessment.