

Request for Proposals
Financial and Compliance Audits



Prepared by:

Hardin County Water District No. 1
1400 Rogersville Road
Radcliff, KY 40160
Phone: 270-351-3222

www.HCWD.com

July 2024

Request for Proposals

Financial & Compliance Audits Hardin County Water District No. 1

The Hardin County Water District No. 1 (“District”) invites Certified Public Accountants, licensed in Kentucky, to submit proposals to perform Financial and Compliance Audits. The District intends to extend an agreement to the selected firm for the audit year ending 2024, with an option for the subsequent two years. A pre-proposal conference for all firms interested in submitting a proposal will be held Tuesday, July 29, 2024 at 2:00 P.M. (EST) to answer questions about the proposal. A remote web meeting option will be available as well with the link provided: <https://stratus.spectrumvoip.com/video/?id=294027687&l=u>. Proposal requirements are available at www.HCWD.com under Bid Information. Proposals will be accepted until 4:00 P.M. (EST) on August 12, 2024. The District invites any qualified firm to submit a proposal and does not discriminate on the basis of race, creed, color, sex or national origin. For any additional information regarding this project please contact Mr. Scott Schmuck at 270-351-3222 ext. 2221 or via e-mail at sschmuck@hcwd.com.

Request for Proposal - Financial and Compliance Audits

Hardin County Water District No. 1

1. **INTRODUCTION**

The Hardin County Water District No. 1 ("District") invites independent Certified Public Accountants ("firm[s]"), licensed in Kentucky, to submit proposals to perform financial and compliance audits in accordance with the following requirements:

2. **BACKGROUND**

The District is a duly organized and operating water district, established in 1952 under the laws of the Commonwealth of Kentucky (KRS 74 et. seq.) and is engaged in producing, selling and purchasing potable water also providing sanitary sewer and storm water services. The District owns five distinct utility systems; the County Water utility (since 1952), the Ft. Knox sanitary and storm water utilities (acquired in 2005), the Radcliff sanitary sewer system (acquired in 2008) and the Ft. Knox water utility (acquired in 2012). The District operates and does business in a service area that includes the City of Radcliff and portions of Hardin, Meade and Breckinridge counties, and the Ft. Knox Army Post.

Due to Public Service Commission (PSC) regulations, GAAP and having various rate structures, the District uses fund accounting with each of its five funds set up as a separate enterprise. Each fund has a separate set of financial reports and annual audit completed with all funds consolidated for a comprehensive financial report. The District's finances have grown considerably over the last 18 years. As of December 31, 2023, the District's total net position is \$158,682,893 while the total operating revenues are \$18,865,113.

For the last 19 audit years, the District has engaged RFH, CPA's / Consultants of Lexington, Kentucky (Mr. Kevin Fisher, CPA). This firm is in good standing with the District and will be allowed to submit a proposal. RFH was selected after a competitive proposal process and replaced the previous CPA firm. RFH was initially engaged for three years, but received several extensions for the subsequent years.

3. **PROPOSAL REQUIREMENTS**

- a. A pre-proposal conference for all firms interested in submitting a proposal will be held at 2:00 PM (EST) on July 29, 2024 at the District conference room, 1400 Rogersville Road, Radcliff, Kentucky, or via remote web meeting to answer questions about the engagement. The provided link will direct you to the meeting: <https://stratus.spectrumvoip.com/video/?id=294027687&l=u>

After this pre-proposal conference, any inquiries concerning the request should only be addressed to Mr. Scott Schmuck, CGFM, 270-351-3222, ext. 2221 or via e-mail to sschmuck@hcwd.com.
- b. To be considered, three copies of a proposal must be received by the District by 4:00 PM (EST) on August 12, 2024. Included with the proposals must be a complete copy with all attachments saved as a PDF file, which file should be included on a USB memory drive.
- c. The District will not be responsible for payment of any expenses incurred in preparing and submitting the proposals. Each proposal will become the property of the District and should not be considered confidential under the requirements of the Kentucky Open Records Act.

4. **AGREEMENT**

- a. Period: The audits will cover the three years ending December, 2024, 2025 and 2026. The agreement will provide for the first year audit, with an option for the following two years. The terms of future extensions will be as agreed by both parties. Further extensions beyond the three years will be at the sole discretion of the District, subject to approval by the Board of

Commissioners ("Board").

- b. The agreement will include terms and conditions as suggested by the firm, required by the District, and agreed to by both parties. Professional Liability, Errors & Omissions, Worker's Compensation and Automobile Liability Insurance will all be required elements of the agreement.

5. SCOPE

- a. The District expects the auditor to express an opinion on the fair presentation of the general-purpose financial statements in conformity with Generally Accepted Accounting Practices and Government Auditing standards.
- b. The audit shall include an examination of the financial statements of all five funds: County Water, Fort Knox Sewer, Fort Knox Storm water, Radcliff Sewer, and Fort Knox Water, as well as 29 other accounts specified below:
 - i. Revenue Funds (5)
 - ii. Operations & Maintenance Funds (5)
 - iii. Debt Reserve Fund (1)
 - iv. Bond Sinking Funds (4)
 - v. Depreciation Fund (1)
 - vi. 13 Other Individual Bank & Investment Accounts
- c. The examination shall be made in accordance with General Accepted Auditing Standards ("GAAS") as set forth by the American Institute of Certified Public Accountants. In addition, the examination is to be conducted in accordance with all the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.
- d. The audit will also require checking compliance to accounting requirements as set forth by the Kentucky Public Service Commission ("PSC"). This will also require cross posting debits, credits, expenses and revenues to standard account numbers used for the annual PSC report. The firm will be required to type in all blank pages provided by the PSC for creating the annual report and meet all reporting deadlines required by the PSC, or request and acquire time extensions when required.

6. ASSISTANCE TO BE PROVIDED BY THE DISTRICT

- a. The District's staff will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of the confirmations will be the responsibility of the auditor. A copy of the 2023 audit report is included with this RFP in the appendix. The following web link can be used to access prior annual reports filed with the PSC:

http://psc.ky.gov/PSC_WebNet/browseLibrary.aspx?typ=ANN

- b. The District codes all expenses into a Uniform System of Accounts (UsoA) as required by the PSC and guidelines of the National Association of Regulatory Utility Commissioners (NARUC). The District uses five internal cost centers and standardized account numbering between types of accounts. The eight digit account number structure is:

A.BB.CCCCC, where;

A	=	Fund Number used for Software purposes
BB	=	Operating Division (per PSC guidelines)
CCCCC	=	Asset, Liability, Capital, Expense, or Revenue Type (Per PSC Guidelines)

- c. Information Systems Assistance:
 - i. The District uses Microsoft Dynamics GP® for its Accounting System (Formerly Great Plains Software) which is an SQL based software application.
 - ii. The District will also have all month end and year-end standard financial statements prepared prior to or during the audit.
 - iii. The District contracts payroll processing through KRONOS®. KRONOS uses sophisticated computer programs, which may be able to produce numerous reports, summaries or calculations on request.
 - iv. The District will provide the auditor with reasonable workspace and furnishings. The auditor will be provided with access to one telephone line, copy machine, wireless internet connection, and a FAX machine for use required by the audit process.
 - v. Access to District records, files, accounting system and reports will also be made available as needed
 - vi. Spreadsheet files: The District has several statements, reports and data in Excel format.
- d. The selected firm will be expected to utilize these files where practical to reduce duplication, re-entry of data and errors caused by re-entry of information. An extracted spreadsheet (from the accounting system) is available, which includes all Account Numbers, Account Descriptions, Annual Budget, Monthly Balance and Year to Date Balance.
- e. The District maintains all assets, which includes depreciation schedules, annual accumulated depreciation, and any scrapped or sold items during current year in Microsoft GP. The District also assigns individual work orders or Capital Improvement Project (CIP) account numbers to capital projects to keep track of capital expenditures and assist in capitalizing final costs to plant asset accounts and update the depreciation schedule. These numbers have 8 digits (X.XX.XXXXX) and are attached or appended to the GL account number. Currently there are about 43 separate capital projects with assigned project numbers.

7. **OBJECTIVES OF THE AUDIT:** The examination of the District's financial statements will have these basic objectives:

- a. The expression of a CPA's opinion on the financial statements. This is a report and letter to the District's Commissioners.
- b. A completed Annual Report to the PSC to be uploaded via PSC portal no later than March 31, 2025.
- c. The issuance of a letter to the Board providing an opinion of the management's accounting practices, policies, corrections and misstatements found and whether the auditor is in agreement with managements financial statements.
- d. Audit is to be completed and an opinion expressed on financial statements no later than March 31, 2025, provided KY Retirement System's Audit has been completed and available.
- e. If required, a schedule of expenditures of federal awards is to be completed by Auditor and submitted to the Federal Audit Clearinghouse per Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

8. **SPECIFICATIONS OF AUDIT**

- a. The auditor shall furnish 10 copies of the report to the District as well as one digital copy in PDF form.
- b. Reports and Schedules to be Completed:
 - i. If applicable, the auditors shall make an immediate, written report of all material

irregularities and illegal acts or indicators of illegal acts. Copies of this report shall be directed both to the General Manager and the Chairman of the Board of Commissioners. (This report is only if required).

- ii. A report on examination of the financial statements of District including all accounts and funds. Shall also include a section on the bonded indebtedness of the District as stipulated by the District's Bond Ordinance. (Required)
- iii. A report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards. (Required)
- iv. If applicable, a report of comments and recommendations for improvement directed to the District's General Manager and Finance & Accounting Manager. This shall include recommendations to streamline, improve accuracy, control losses, eliminate duplication and redundancy and better utilize technology. (This report is only if required).
- v. Review the audit progress weekly with the Finance & Accounting Manager, including the following items:
 - (1) Significant unresolved accounting and auditing problems
 - (2) Large adjustments or reclassifications
 - (3) The adequacy of financial statement disclosures
 - (4) Reasons for major fluctuations in account balances
 - (5) Unusual or large commitments or contingent liabilities and major differences in format or disclosures from other government reports.
 - (6) Review and evaluate the Internal Controls and Procedures regarding processing of accounting information. This will include controls built into hardware and software as well as internal accounting controls and security measures.
 - (7) The audit shall include review of compliance with GASB 34, pertaining to local government entities.
 - (8) The audit shall include review of compliance with all other GASB pronouncements.
 - (9) The audit report shall incorporate a letter of Management's Discussion and Analysis, which will be provided by the District, and advance copy provided to the auditor before being published with the audit.
 - (10) Complete the allocation of assets, liabilities, revenues, and expenses to PSC standard line numbers as used in the annual PSC report. Some data and results can be forwarded to the District in rough form and no separate report, letter or opinion is required.
- vi. Working Paper Retention and Access to Working Papers:
 - (1) The District believes that the auditing process today must use spreadsheets, accounting software and the use of technology. This facilitates accuracy, reduces cost of the audit process, reduces paper files and provides for reuse of the data into future reports or work. Because of this, the District would expect the firm to be proficient and experienced in the use of these tools. The term "working papers" in this RFP is assumed to, in a large part, actually mean digital files, spreadsheets and hard copy printouts of the same.
 - (2) All working papers and reports must be retained at the auditor's expense, for a minimum of five years after each audit unless the firm is notified in writing by District of the need to extend the retention period. The auditor will be required to make working papers available, upon request.
 - (3) The District shall retain ownership and a right to all data, working papers and reports and retain a right to receive copies of or access to this information upon request.

9. PROPOSAL CONTENT REQUIREMENTS

- a. License to Practice in Kentucky: A statement which indicates that the firm's key professional staff are properly licensed to practice as a Certified Public Accountant in Kentucky. Any other accounting related professional certifications should also be disclosed.
- b. Firm Qualifications and Experience:
 - i. The proposal must disclose the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed, and the number and nature of the professional staff to be employed in this engagement.
 - ii. The firm shall also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past five years with state regulatory bodies or professional organizations.
 - iii. Partner, Supervisory and Staff Qualifications and Experience:
 - (1) Shall identify the principal supervisory and management staff including engagement and indicate managers, other supervisors and specialists, who would be assigned to the engagement, length of employment with this firm and indicate whether each person is licensed to practice as a certified public accountant in Kentucky.
 - (2) Shall provide information on the government auditing experience of each person, including information or relevant professional education for the past two years and membership in professional organizations relevant to the performance of this audit.
 - (3) Similar engagements with other Water and or Sewer Utilities, Water or Special Government Districts and City and County Government.
 - (4) Shall list the most significant engagements (maximum of 5) performed in the last three years that are similar to the engagement described in this RFP. Indicate the scope of work, date, engagement partners and the name and telephone number of the principal client contact.
 - (5) The firm should also list any familiarity, certification or specialized training with organizations or standards such as AWWA, GASB/FASB, GAAP, NARUC, GFOA, AGA, OMB or others that may apply and provide value to this type of audit and business type.
 - (6) Shall include one copy of a previous annual audit report for a similar sized utility or local government that uses multiple fund accounting with a comprehensive annual audit.
- c. Audit Approach and Work Plan:
 - i. In developing the work plan, reference should be made to sources of information and data that the firm will access or use.
 - ii. Describe how the firm plans to gain understanding and document the District's internal control structure, accounting system and available records.
 - iii. Describe how the firm will determine the laws and regulations that the audit will be subject to.
 - iv. Include the approach to be taken in drawing audit samples for purposes of test of compliance.
 - v. Provide an overview of the firm's Quality Management and Quality Control program, which will be used to measure, plan for and improve client satisfaction and client service during the working relationship with the District.
 - vi. Other Submittal Information Requested:
 - (1) Sample sizes and the extent to which statistical sampling is to be used in the engagement. Also, a definition of how materiality will be determined for this audit. Include any special innovative ideas, methods or suggestions to be used

during the audit.

- (2) Computer Software and Hardware to be used in the audit process. Also, a list of all major files or schedules that will be provided to the District in digital format.
- (3) The approximate date the audit will begin (including preliminary field work) and end, as well as approximate dates for delivery of the financial statements, compliance reports and reports of comments and recommendations.

10. PROPOSAL FORMAT AND SCHEDULE: The following information must be included:

- a. Name of Firm
- b. Certification that the Person signing the proposal is entitled to represent the firm, empowered to submit the bid and authorized to sign a contract with the District.
- c. The proposal shall be sent before the deadline by email, mail, or courier. The proposal shall be marked clearly "*CPA Services Proposal*" and shall be sent to:

Mr. Scott Schmuck
sschmuck@hcwd.com
 Hardin County Water District No. 1
 1400 Rogersville Road
 Radcliff, KY 40160

11. PROPOSAL SCORING AND SELECTION

- a. Each proposal will be completely read by each committee member. The planned committee will include the General Manager, Finance & Accounting Manager and Accountant (The District may change the make-up of this committee without notice). Each member will then use a pre-defined scoring form to independently score each proposal. The committee will then meet to consolidate scores. Firms with the three highest scoring proposals will then be invited to an interview. The interview will be for both the District and firm to ask and answer questions. Each firm must have their intended lead auditor attend the interview.
- b. Once interviews are completed the committee will complete scoring and decide on the recommended firm. The recommended firm may not necessarily be that with the highest nominal score. The recommendation will then be presented to the Board of Commissioners at their next regular meeting. A summary showing names of all firms submitting, the staff scoring and the proposed fee will also be presented to the Board. The final selection will be made by the Board and may not necessarily be the same as the staff's recommendation.

The items scored and their weight are as shown in the following table;

Factor	Description	Weight
Proposal Content	How closely did the proposal follow the requirements, did it include required elements. Was it well organized, concise and easy to understand?	5%
Firms Qualifications	How much resources does the firm bring to the audit, how much overall firm experience related to the District's needs and how long has the firm been in practice?	15%
Partners, staff and auditors' qualifications	How does the experience of the assigned lead auditor benefit the District and how close is it to the District's type of business? How much experience do the partners have with Governmental audits with multiple enterprise funds?	20%
Audit Approach & Work Plan	How well is this described? Does the plan address all the needs and deadlines of the District? Does the plan show knowledge and experience with the District's type of business?	15%
Experience with Multi-fund clients and Public Service Commission	How much experience does the staff and firm have with preparing audits for Government or utility companies with multiple funds? Does the firm have experience filing audit reports and other	25%

	required reports to the PSC?	
Fee Proposal	How does the fee compare to the District's recent audit fees? How does it compare to the other proposal fees received? Is the proposed plan for future fee adjustments fair and equitable and understandable? Is the first year engagement fee reasonable?	20%

12. PRE-PROPOSAL CONFERENCE AND ON-SITE INSPECTION: This meeting is for proposing firms. It will be held at the District's office at 1400 Rogersville Road in Radcliff, Kentucky or via remote web meeting by clicking the provided link: <https://stratus.spectrumvoip.com/video/?id=294027687&l=u> July 29, 2024 at 2:00 PM (EST). Firms are encouraged to email advance questions to the District ATTN: Mr. Scott Schmuck, CGFM, Finance & Accounting Manager, sschmuck@hcwd.com. Answers to questions that cannot be answered during the conference, or requests for additional materials, will be sent to all attendees of the conference through an addendum.

13. KEY DATES (Subject to Change Without Notice):

- c. July 22, 2024 Request for Proposals Issued
- d. July 29, 2024 Pre-Proposal Conference
- e. August 12, 2024 Proposals Due
- f. August 14-16, 2024 Interviews with finalists
- g. August 27, 2024 Recommendation presented to Board
- h. August 30, 2024 Execute agreement with selected firm
- i. February 2025 Arrive on-site to commence work
- j. March 31, 2025 Complete submittal of PSC report
- k. April 29, 2025 Attend Board Meeting to Present audit report

These dates are proposed and subject to change. Progress conferences with key staff will be conducted during the audit process and will be held at the convenience of the District and the firm.

14. PROPOSAL CHECKLIST – REQUIRED ITEMS:

- 3 Copies of proposal document with any attachments
- PDF Copy of complete proposal on USB drive
- Evidence that the CPA is licensed in Kentucky
- Explanation of Firm's qualifications and experience
- Partner, Supervisory and Staff qualifications and experience (several items required)
- Provide one copy of previous audit report for similar size / type entity
- Audit approach and work plan (several items required)
- Signed Proposal Submission Form
- Completed Proposal Fee Form
- Signed and witnessed Proposal Certification Form

PROPOSAL SUBMISSION FORM

This Proposal is submitted by:

Name of Firm

Prepared by (Name & Title)

City, State, ZIP Code

Phone Number

FAX Number

E-mail Address

Website Address (If Available)

ACKNOWLEDGMENT & NON-COLLUSION CERTIFICATION:

Having carefully examined the complete proposal requirements, and having accepted responsibility to have any and all questions answered prior to submitting this proposal, the undersigned has the authority on behalf of the firm to submit the following proposal amounts and further agrees to reach an agreement to provide all required work, expertise, travel, materials and equipment required, and hereby certifies that he / she has not given or received or offered to give or receive, any economic opportunity, gift, loan, gratuity, favor, or monetary payment to any competitor, District employee Board member or officer and has not discussed their proposal, pricing or colluded with any competing firm to decide whether or not to submit a proposal or what fee to propose;

Signature of Authorized Representative

Date

PROPOSAL FEE FORM

An amount or answer shall be provided for each of the required items;

Item No.	Description	Fee
1	OPTIONAL - First year engagement fee (if applies). This fee would be charged in addition to first year audit fee and would be to recover added costs and time to gather required information, review previous audits and work papers, set up computerized chart of accounts, additional meetings with staff and any other additional costs required to complete the first year audit	\$ _____ (If applicable)
2	First year audit fee. The proposed fee shall be the maximum the firm will charge, in 2025, to complete the 2024 audit, submit all reports to the PSC and provide all paper copies required as well as all other requirements listed in the Request for Proposals	\$ _____ (Required)
3	Fee (if applicable) for Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)	\$ _____ (If applicable)
4	Subsequent audit year fee increase method. Shall describe the method, index or percent the District should expect the annual fee would increase for each subsequent year an audit is completed	Provide text description of the fee increase method proposed or planned (May attach if needed)
5	Additional Work – Hourly Rate. This rate would apply to only the lead auditor for additional work, analysis, study or calculations unrelated to the annual audit and which requests could occur throughout the year. Rate would be adjustable in future years	\$ _____ / Hour (Required)

Name of Person Completing Proposal Form: _____

PROPOSAL CERTIFICATION FORM

By signing below, the undersigned does hereby agree and certify the following terms, understanding and commitments;

1. That the proposer, including officers, partners or principals, have thoroughly read and understand all sections of the Request for Proposal and that any exceptions or variances requested have been submitted with their proposal, all questions have been asked and answered and that the fee(s) submitted with the proposal assume providing coverage for all risk requirements listed in the Request for Proposal.
2. That all information and answers are correct for all parties to the best of their knowledge, and that should any information be found to be materially incorrect or false, the District may terminate any contract or agreement with the parties.
3. By submitting a proposal, the Proposer agrees to release the District from any liability resulting from the District's disclosure of such materials and the information contained in them.
4. By submitting a proposal, the Proposer also agrees to defend any legal or administrative action seeking release of materials the Proposer believes to be trade secret information and will indemnify and hold harmless the District, its agents and employees from any judgments or damages awarded against any of them in favor of any party requesting the materials, including any costs connected to that defense. If a request is made under Kentucky Statutes for release of any materials submitted by a Proposer that the Proposer deems to be trade secret information, the District will notify the Proposer of such a request, but the District will have no obligation to commence or defend any action to prevent the disclosure of any materials, including materials the Proposer believes to be trade secret information or otherwise confidential.
5. That no member of the proposer's company, its employees, principals or partners have not given, offered to give, nor intends to give at any time hereafter, any economic opportunity, future employment, gift, loan, gratuity, special discount, trip, favor, or service to a District employee or Commissioner in connection with this proposal and offer.
6. That the undersigned have the authority and approval to submit this proposal and bind their corporation or organization to the terms required in the Request for Proposal and if selected for further consideration will in good faith negotiate with the District to provide additional pricing or cost information, and to enter into an agreement for completion of this project.

Firm Certification:

Signature

Printed Name & Title

Name of Corporation / Company

Witness Signature

Date of Proposal

APPENDIX

2023 Annual Audit Report