

Audit Proposal Gainesville Regional Utilities

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Purvis, Gray and Company, LLP



Ocala



Gainesville



Serving Florida For
Over 70 Years



Sarasota



Tallahassee

Core Audit Team

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PARTNER IN CHARGE
Ron D. Whitesides, CPA



PARTNER IN CHARGE
Barbara Boyd, CPA



MANAGER
Kevin R. Smith, CPA



TECHNICAL CONSULTANT AND
INDEPENDENT REVIEW
PARTNER

Mark A. White, CPA



INFORMATION TECHNOLOGY
CONSULTANT

Gary R. Heder, CISA, CRISC

Team Roles

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Partners in Charge of Audit

- Ensure work is properly planned and executed
- Conduct entrance and exit conferences with client
- Participate extensively in audit fieldwork and review process

Role of the Manager

- Plan and conduct fieldwork; including staff supervision and report preparation
- Conduct entrance and exit conferences with client
- Keep client and partners in charge informed on job status

Role of Information Technology Consultant

- Review IT environment and key IT general controls, application controls, and IT-dependent manual controls
- Assist audit team with risk assessment process
- Make recommendations to strengthen IT environment and controls

Role of Technical Consultant

- Provide consultation and review of technical accounting and auditing issues
- Perform final “cold” review of audited financial statements and reports

About Purvis, Gray and Company

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- Founded in 1946 – 70 years of experience
- Statewide Firm – four offices; approximately 80 people
- Growth through excellent client service, not acquisition of small CPA practices
- Practice is primarily local government and utility audits

Similar Audit Experience

Electric Utilities

Municipalities and Special Districts

- City of Alachua
- City of Bartow
- City of Bushnell
- Florida Municipal Power Association, Orlando
- City of Fort Meade
- Gainesville Regional Utilities
- City of Green Cove Springs
- City of Jacksonville Beach
- Kissimmee Utility Authority, Kissimmee
- City of Mount Dora
- City of Newberry
- City of Ocala
- City of St. Cloud (OUC Electric Operating Agreement)
- City of Williston



Over 75% of our audit engagement hours are spent auditing local governmental and utility clients. All of our partners and our audit staff have extensive governmental and utility experience.

Rural Electric Cooperatives

- Central Florida Electric Cooperative, Inc., Chiefland
- Choctawhatchee Electric Cooperative, Inc., DeFuniak Springs
- Lee County Electric Cooperative, Inc., North Ft. Myers
- Peace River Electric Cooperative, Inc., Wauchula
- Sumter Electric Cooperative, Inc., Sumterville
- Talquin Electric Cooperative, Inc., Quincy
- Withlacoochee River Electric Cooperative, Inc., Dade City

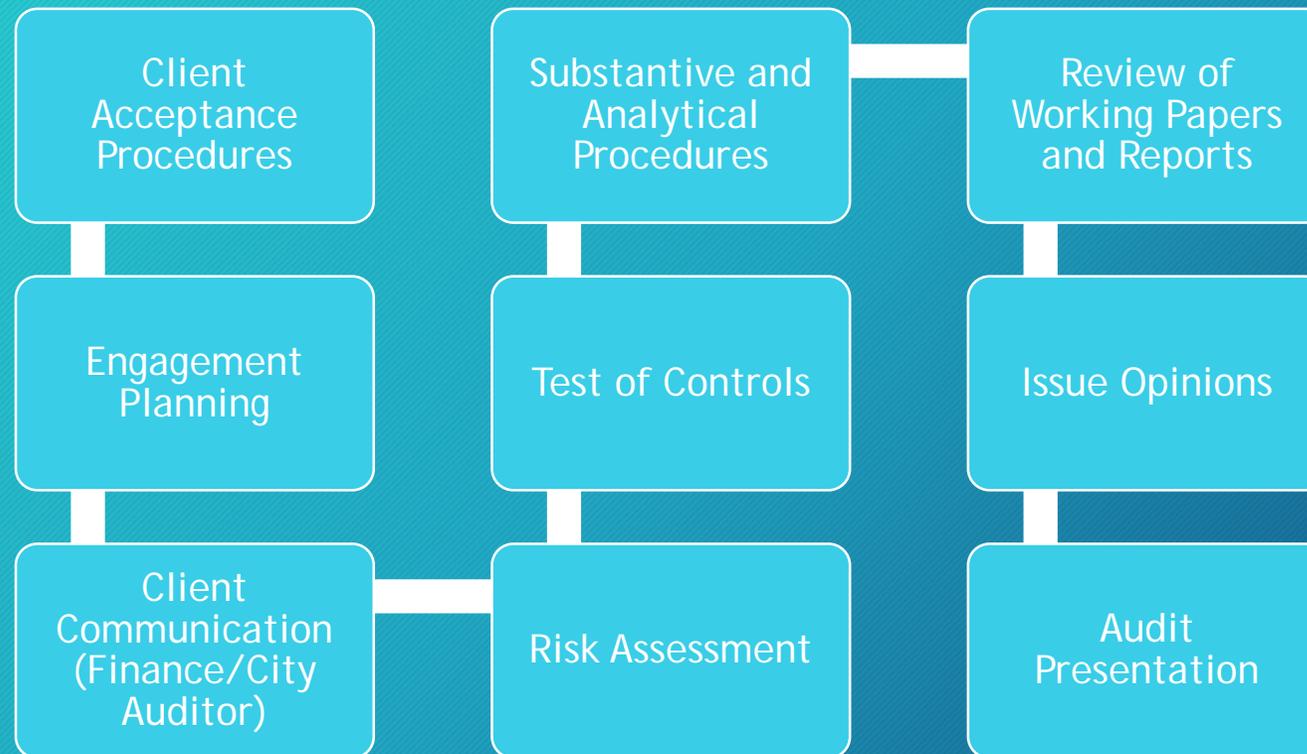
Client Service Focus

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- Client service is number one priority
- Experienced team in the field, means partners and managers in the field
 - Identify and resolve issues early during interim work
 - Meet reporting deadlines
- Partners and managers available for questions throughout the year with no additional billings; will respond quickly to your needs
- Up to 16 hours of CPE credits provided at no charge
- Firm focus and experience on auditing local governments and utilities

Audit Approach

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Risk Assessment Procedures

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- Gain an understanding of the entity and identify risks
 - Management and City Auditor inquiries
 - Review of minutes, pertinent resolutions and ordinances, significant grant and debt agreements, and other contracts
- Obtain an understanding of the design and implementation of internal controls
 - Entity level controls, including IT environment
 - IT general controls
 - Transaction level controls
 - Perform test of controls, where deemed necessary
- Perform fraud risk inquiries
- Summarize risk assessment and develop specific audit approach

Industry Risks

GRU Question #1

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Please describe at least two critical business and industry risks GRU is facing that may affect our financial reporting and describe why your firm is best suited to guide us.

- Critical industry risks include:
 - Expansion of Regulatory Compliance
 - Variability of Fuel Cost
 - Hedging Activity
- Purvis Gray has audited and advised utilities for over 50 years with these organizations comprising a significant portion of our client base
- On-site fieldwork team has extensive experience in the industry

Internal Auditor Specific GRU Question #2

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How will your firm maximize collaboration with our internal auditors to fully utilize their knowledge of our risk and operating environments?

How will you communicate with the City Auditor if you believe that GRU management is not adequately responding to accounting changes?

- Maintain open line of communication with internal auditors
- Purvis Gray's risk assessment process includes discussions with internal audit to identify
 - Areas of concern, higher risk
 - Results of internal audit projects completed
 - Fraud risks
- Purvis Gray philosophy is to identify potential issues early
 - Communication is key
 - Entrance, interim and exit conferences keep management and internal auditors informed

Ethics and Fraud

GRU Question #3

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Please explain how you will address internal “tone at the top” issues and current antifraud programs and controls?

- Organizations with weak “tone at the top” commonly have weaker controls
 - Control tests likely would identify control deficiency; may be department specific, not entity-wide
 - Result in modified audit approach, with less reliance placed on the entity’s controls
- Antifraud Programs and Controls
 - Inquire about and verify implementation of general antifraud programs and incorporate into overall risk assessment
 - Inquire about and verify implementation of specific fraud controls (e.g. segregation of duties, performance of bank reconciliations, physical safeguarding of inventory)

Utility Projects

GRU Question #4

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In your proposal, you indicate that your firm has had extensive involvement in a variety of different utility projects including rate studies, power supply and sale contract negotiation and billing system issues. Can you provide some examples of this type of work done by your firm for a utility organization that is similar in size and complexity to GRU?

- Although we are not a consulting firm, examples of utility consulting projects include:
 - Power supply contract consulting with City of Alachua
 - Merger feasibility between two electric cooperatives
 - Many examples of utility billing system problems identified and corrected through the audit process
- New auditor independence standards required a significant reduction in the amount of consulting engagements we could perform for audit clients; however, our experience conducting these engagements provides us with significantly more insight and understanding of your industry

Client Communications

GRU Question #5

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Please describe your commitment for the communication process to clients. Would you consider your firm client centric?

How accessible/open is the partner in charge to client questions on existing accounting procedures and proposed changes to accounting procedures?

- We encourage year-round communication with our clients; the partners and managers assigned to your engagement are available for discussion of issues as they arise, typically without additional fees to the client
- Partners and managers in the field during conduct of the audit facilitates open lines of communication
- Each audit engagement is tailored to the specific client, including utilizing existing client reports and meeting client deadlines; demonstrating a client centric approach

Client Communications

GRU Question #5 (Concluded)

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How will your firm communicate new accounting standards and/or changes in laws that may be applicable to your clients? How proactive is your firm and examples?

Please describe any offered CPE, GASB updates, authoritative updates, or client training.

- Multiple in-house and outside trainings attended by Purvis Gray
- Barbara Boyd and Mark White are members of the FGFOA's Technical Resource Committee
 - keep up to date and prepare responses for new GASB exposure drafts and preliminary views

IT Risk Assessment

GRU Question #6

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Please describe how each major element of the GRU financial processing system/software/hardware will be assessed for risks to financial reporting. Include who makes up the IT risk assessment team, if they will be onsite or off, and how many hours might be used to accomplish the work.

- IT Risk Assessment Team comprises
 - Ron Whitesides, Partner in Charge
 - Kevin Smith, Manager
 - Gary Heder, IT Consultant
- Work performed both onsite and offsite
- Approximately 80 hours expected to accomplish work

IT Risk Assessment Key Control Elements

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IT Organization

- Structure; Roles and Responsibilities
- Strategic and Project Planning
- Risk Assessments
- Policies and Procedures
- Security Awareness

Security

- Authentication and Password Administration
- Access to Programs and Data (SOD)
- User Access Provisioning Process and Monitoring
- Audit and Accountability
- Computer Center

Network

- Firewalls
- Vulnerability Assessment
- IDS/IPS

Change and Configuration Management

Computer Operations

- Data Backup
- Incident and Problem Management
- Disaster Recovery

IT Infrastructure

GRU Question #7

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In accordance with RFP Section VI(B)(2), GRU is currently re-implementing its SAP financial software system (FMIS) with an anticipated go live date of April 3, 2017. As part of a strategic plan for the utility which includes the FMIS reimplementation, GRU is scheduled to re-implement its Customer Care Billing System (CCS), a subsidiary ledger, in fiscal year 2018 which was originally implemented in fiscal year 2007. GRU is also planning to implement SAP's Enterprise Asset Management System (EAM) in fiscal year 2018 or 2019. Please explain how you factored these events into your audit approach and describe what steps you will take.

- Key aspect of change in financial system is the integrity and completion of data during conversion
 - Purvis Gray reviews controls over the data conversion process to ensure integrity and completion of data converted
- Change in software generally results in new or changes to internal control processes (manual, IT-dependent, and IT controls)
 - Purvis Gray performs risk assessment of new IT systems, including new or modified control processes
 - Modified audit approach based on risk assessment

Regulatory Accounting

GRU Question #8

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Please provide an overview of the firm's clients who utilize regulatory accounting. Please provide an overview of the industries. Which clients do you audit who use regulatory accounting?

Please provide examples of FAS 71 and GASB 62 applications that you have audited or provided client assistance through other engagements.

- Following is a listing of current audit clients which utilize regulatory accounting:
 - GRU
 - Florida Municipal Power Agency
 - Kissimmee Utility Authority
 - Ocala Electric Utility
 - Florida Gas Utility
- Components of regulatory assets include long-term purchased power agreements, purchased gas agreements, ineffective interest rate swaps, net costs recoverable

Regulatory Accounting

GRU Question #8 (Concluded)

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Please describe your experience in auditing or providing client assistance related to interest rate swaps and other hedging derivatives.

Please describe your experience with net costs recoverable and provide a sample of clients.

- Interest rate swaps became commonplace within the governmental, utility and not-for-profit segments within the last decade; we have audited many entities employing interest rate swaps
- Other hedging derivatives are less common; our experience has been with natural gas hedges. Following is a listing of current audit clients which utilize gas hedges:
 - GRU
 - Florida Municipal Power Agency
 - Florida Gas Utility
 - Ocala Electric Utility

Rate Making

GRU Question #9

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Please describe your experience with rate making financial statements (flow of funds) versus GAAP financial statements. Please describe your experience with how regulatory accounting impacts rates and your audit approach to same.

Please describe your experience with rates/rate design as it relates to financial statements audits.

- The following clients currently or have recently utilized rate making financial statements:
 - Florida Municipal Power Agency
 - GRU
 - Kissimmee Utility Authority
 - Florida Gas Utility
- A key component of application of regulatory accounting is the ability to recover regulatory assets through future rates

Financials

GRU Question #10

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What should GRU expect as far as the timing of the review of the work papers, additional questions/items that are needed from that review, and final QAQC for the financial statements?

- Workpaper review is primarily completed during fieldwork; financial statement review is completed soon after financial statements and notes have been produced
- Most review questions will be provided upon completion of financial statement review by the partner in charge
- Quality Assurance review occurs after completion of financial statement and workpaper review by the audit team and partner in charge and is typically performed within a week of completion of partner in charge review

Why Purvis, Gray and Company?

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- Industry Experts - Purvis Gray specializes in local government audits
- Partner and manager participation - high level of partner involvement during all stages of the audit
- Client focused, professional service