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Addendum 1
Solicitation 24-AA08
RFP for Audit Services

This addendum serves to notify all bidders of the following changes to the solicitation documents:

The following questions asked are answered below in *italics*.

- 1. Are separate proposals requested for each of the four entities? Or should all be encompassed in one proposal?** *All entities can be included in a single proposal.*
- 2. Can you please confirm the due date? The RFP cover page and website list 11/5, but page 3 of the RFP lists 10/31.** *The cover page and website are correct. Proposals are due on November 5, 2024.*
- 3. Typically, do all three component units with the 12/31 year-end get audited at the same time? Or are they operated more like three separate audits? I understand its separate audits I'm just curious if its typically 3 different timeframes/teams or all one team doing all of them at the same time and what the component units are used to from an audit perspective.** *All three 12/31 year-end components (DTA, DECC, DAA) have historically been audited by the Duluth Office of the Minnesota Office of the State Auditor (OSA). The OSA office crew is relatively small and typically works on these audits during relatively the same time frame. There may be some staff overlap on the three audits.*
- 4. What is the reason for seeking bids for audit services?** *All four entities contained in the RFP are presented as component units in the City of Duluth's Annual Comprehensive Financial Report (ACFR). The City's ACFR has an issuance deadline of 6/30 for continuing disclosure requirements related to debt issuance and for participation in the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The primary reason for seeking bids is to find a firm that can complete the component unit audits in a timely manner, while providing good service, so that they can be incorporated into the City of Duluth's ACFR. It is a burden for the City's accounting staff to have component unit opinion dates in June that need to be incorporated into the City's report right before*

the 6/30 deadline. In addition, the audits performed by the Minnesota Office of the State Auditor have taken longer than the component units desired. We believe there will be time and cost savings on the audits if they are consolidated into a shorter timeframe. Have audits start and stop and span several months is not efficient for the auditor or the auditee.

5. Please describe any quality or timeliness issues that the entities have had with the current auditor, if any.

DAA: The final audit information was not meeting the requirements of the City for their financial reporting. There has not been a schedule/date that was firm to stick to the last couple of years. Having a firmer schedule will help with DAA audit preparation and planning.

DTA: Meeting the cities' deadline

SMRRA: Early start collecting documents and, sometimes, scheduling site visits, both of which are good. However, follow-up work stretched out over months and months and months, so we never were able to "wrap up" our time with the auditor. In addition, the time between us providing responses and their follow-up frequently dragged on, making it difficult to maintain the thread of conversation. Entrance conference scheduled with management and board after audit was essentially complete; exit conference scheduled short time thereafter, wasting time of all participants.

DECC: Prior audits were completed over a period of several months. There were several starts and stops with information requests spread out over a prolonged period.

6. Have the entities experienced any turnover in key accounting positions in 2024?

DAA: We had a current employee transition into an accounting role in January of 2024.

DTA: Yes – new Finance Director.

SMRAA: Yes. Finance Director of last 3.5 years resigned. Replacement has been on board for less than two months.

DECC: The Duluth Entertainment and Convention Center (DECC) was working with an independent contractor for accounting support. The agreement has since ceased.

7. What financial accounting system do the component units rely upon? Is it the same system as the City of Duluth? Are there any accounts (cash, debt, AP, etc.) that are centralized through the City of Duluth? The City of Duluth manages the cash for the component units. Each component unit has a "pooled cash" balance with the City. The City does not maintain detailed transaction level accounting records for the component units. The detailed records are contained within each component units' accounting

system. When the component units issue AP or payroll disbursement, the City transfers funds to the component unit bank accounts to fund the transactions.

DAA: The DAA uses Netsuite Oracle. This is not the same as the City of Duluth. All transaction data is entered into the DAA accounting system. The City of Duluth holds the DAA funds in their pooled cash account and records incoming and outgoing funds. The City informs the DAA when funds are received for the DAA to receipt in against a receivable balance. The DAA provides check/payment registers to the City of Duluth to record lump sum payments going out.

DTA: DTA uses Dynamics

SMRAA: SMRRA uses Great Plains.

DECC: The DECC uses the Momentum software. It is not the same system as the City of Duluth. The DECC's operating cash account is part of the City of Duluth. The DECC also has a Ticket Office account and a Flex account that are separate.

8. **What were the total audit fees charged for the last two (2) fiscal years? Do the fees include any out of scope billings?** Fees are listed below and do not include any out of scope billings.

DAA: 2022: \$33,335.50

2023: \$30,287.00

DTA: 2022: \$48,027

2023: \$48,571

SMRAA: FY22: \$34,404

FY23: billing not finalized

DECC: 2022: \$45,219.50

2023: \$41,852

9. **What were the estimated audit hours for the 2023 engagements? If unknown, please provide the number of auditors and number of days auditors have typically been on-site/remote (preliminary and final fieldwork).**

DAA: Financial Audit Services (Director, Senior, Auditor, Standards & Procedures Review, Audit Manager Review): 101.5+169.5=271

Single Audit Services (Director, Senior): 19+31.5=50.5

Total Hours combined: 321.5

DTA: 539 hours

SMRAA: 393 hours for FY 2022

DECC: 489 hours

10. Do the entities prefer the audits to be conducted in person, remote, or hybrid?

DAA: DAA has most recently had the audits be conducted in a hybrid manner. Auditors have come in and gone through the walk-throughs and any required in-person portions of the audits and the conducted the remainder of the audit remotely. This works for us.

DTA: Hybrid

SMRAA: Hybrid seems to work because field work allows for questions to be answered immediately rather than via email.

DECC: Hybrid is preferred.

11. In order to meet the report issuance deadlines of April 30 and August 31, when will the records and trail balances be ready to audit?

DAA: March 31st

DTA: Beginning of February

SMRAA: Maximum of two months post fiscal year end or June 30; goal is 45 days or less.

DECC: Beginning January, internal controls may be audited. Beginning March, various workpapers and a preliminary trial balance subject to change will be available. Final trial balance and remaining workpapers will be ready by April 1. If this proposed timeline does not allow for an April 30 report issuance, please provide an alternate timeline to meet the April 30 deadline.

12. Where PERA is applicable, do the entities record their respective activity or rely on the auditors to record?

DAA: DAA Staff Finance Director has been preparing the journal entries for the GASB 68 requirement. Typically, we ask the auditor to review the information we put together for accuracy.

DTA: PERA not applicable

SMRRA: Spirit Mountain records its activity

DECC: The DECC has relied on the auditors to record PERA. Additionally, the DECC may request assistance from the auditors to record OPEB.

The questions and answers below are specific to each entity identified at the top of the list of questions.

DAA only questions:

1. For the DAA, what types of approved projects are the PFC's being applied towards (equipment, debt service, facilities, etc.)?

PFCS have been approved and are being applied towards equipment, debt service and facilities.

A current quarterly report could be provided to show what PFC applications are currently open and what the projects were.

2. Has the DAA encountered any significant or unusual difficulties over the past two (2) years with the financial audits and/or audits under Uniform Guidance (with the current auditors, financial records, compliance with laws and regulations, etc.)?

The DAA has not encountered any significant difficulties. Implementation of the new GASB requirements (87/96) have been complicated to implement and manage

3. Does the DAA expect any significant turnover in key accounting positions during the contract term (retirement, etc.)? Are there any significant accounting positions currently open that would impact the audit? If the answer is yes to either question, please describe.

There could be a retirement or turnover in a position within the next few years, but there is no known or confirmed turnover during the contract term. There are no open significant accounting positions.

4. Were any audit adjustments proposed by the auditors during the 2023 audit of the DAA? If so, what was the nature of the adjustments?

The only adjustment proposed was regarding COVID relief funds, which are no longer an issue as funds have been fully utilized. This was documented through notes of the financial statements

5. Has the Authority recently received any Records of Decision from the FAA?

No

6. What do you consider to be the Authority's biggest fiscal challenge at this time?

Inflation on airport contracts and supplies has been substantial over the last several years. DAA reviews rates annually to ensure that costs can be covered.

Capital project costs are significant and the DAA must be able to cash flow projects while awaiting reimbursement from MnDOT and the FAA.

DAA is working to achieve full funding of an Air Traffic Control Tower replacement.

7. The RFP notes that the DAA is requesting the auditors to prepare the schedule of expenditures of federal awards for the DAA. What types of support are provided to the auditors to accomplish this non-audit service?

DAA staff provides grant documents as well as a spreadsheet which shows all payments made on each project by grant.

8. Does the DAA prepare their own MD&A, or is assistance being requested from the auditors?

The DAA prepares our own MD&A. Typically the auditor has just reviewed this for us.

9. Are there policies and procedures that document controls over the financial operations for the DAA regarding areas such as parking revenues, concessions, airline receipts, disbursements, etc?

We do have procedural documents/narratives which document controls over financial operations for the DAA.

Parking revenues are collected by credit card and recorded based on the monthly statement. Concessions are report to the DAA and invoiced to the appropriate concessionaire. Payments are made by check or ACH. Airline payments are received by check or ACH

10. What tools or software does the DAA use to account for its lease activity?

LeaseQuery

11. Were SBITAs evaluated as part of the 2023 audit, and if so, were they determined to not be material?

SBITAs were evaluated as part of the 2023 audit and determined to not be material.

12. The 2023 financials discuss several ongoing and anticipated capital initiatives. Are the significant capital projects administered by the State of MN on behalf of the DAA? Or, is the funding from the State and Federal governments provided to the DAA to contract and administer the projects in-house?

The DAA contracts for the design and construction of the capital projects. The DAA has a contract with an engineering firm (SEH) who administered most of the capital projects and construction management. The funding received by MnDOT and the FAA is received as a reimbursement after pay applications have been signed off and approved by all contractors, SEH and DAA Operations Director, and payment has been made to the contractor.

DTA only questions:

1. Does the blended component unit have its own set of accounting records? Or is all of the activity intermingled with that of the DTA? Is there a separate fund or anything delineating the activities of ATE Management? (Appears to only be payroll and cash for payroll).

No. Separate financial statements are not prepared.

2. How many major programs has DTA historically had? Is that anticipated to change with new funding?

2023: one major program – Federal Transit Cluster comprised of ALN#'s 20.507 and 20.526

2022: one major program – Federal Transit Cluster comprised of ALN#'s 20.507 and 20.526

2021: one major program – Federal Transit Cluster comprised of ALN#'s 20.507 and 20.526

3. Does DTA require an AUP related to its NTD report?

No, DTA does not since this information comes from the audited financial statements

4. Were any audit adjustments proposed by the auditors during the 2023 audit of the DTA? If so, what was the nature of the adjustments?

Yes, journal entries to adjust grant receivables recorded as revenue

5. Has management evaluated the impact of implementing GASB 100?

Yes, the discussion has been had. DTA will be open to further changes as recommended by the auditors

SMRAA only questions:

1. Has management evaluated the impact of implementing GASB 96?

Our prior finance director was aware of it and had had discussions with our auditor. Not certain if new finance director, who has been on the job for less than two months, is aware

2. Are there any future plans for expansion or significant construction projects? If so, how will those be funded?

Yes. A \$26 million infrastructure reinvestment initiative that will include demolition of a portion of the main chalet, significant renovation of the existing portions and an addition, as well as a new chairlift to replace two aging ones. Construction is estimated to start in 2025, although the chairlift likely won't be installed until 2027.

Project will be funded by a \$13 million general fund appropriation by the State of Minnesota in 2022 and a \$13 million local match. The local match will come from bonds likely to be issued in fall 2025; the City of Duluth will make 50% of the bond payment and Spirit Mountain will be responsible for 50% of the bond payment.

The debt associated with the project will be issued by the City. The management of the project, including the \$13M state appropriation and payment of contractors, will be managed by the City.

3. Is any debt anticipated to be issued by SMRAA?

Spirit will not issue any debt on its own

4. Were any audit adjustments proposed by the auditors during the 2023 audit of the SMRAA? If so, what was the nature of the adjustments?

None

5. Why is the normal time note its due August 31 but for the first year, it won't be due for a full year after until April 30, 2025? Did they have turnover, or are they behind in current audits?

SMRRA has a 4/30 fiscal year end and the 2023 audit is complete. The 4/30/24 audit report is what will be included in the City's 12/31/24 audit report as a component unit. The 4/30/24 audit would be in the first audit under this RFP. Because of the timing and the fact that the 4/30/24 audit report is in the City's 12/31/24 audit report we are allowing extra time for the first transition year.

SMRAA's 4/30/25 audit report will be including in the City's 12/31/25 audit report. The goal after the 4/30/24 audit report is to have it completed 4 months after fiscal year-end so that the audit does not drag on longer than needed and so that it will be completed in a timely manner in relation to SMRRA's fiscal year-end.

DECC only questions:

1. Was the public purpose finding in the report remedied during 2024? Did the entity properly meet public purpose spending of items and require itemized receipts for the travel and expense policy? It looks like they fixed all of the recommendations from the 2022 audit with the exception of the items noted in the one finding in 2023.

The DECC is currently revising applicable policies and updated procedures to align with the public purpose compliance measures as articulated in our 2023 audit report. We expect to have updates to all applicable policies by 12/31/2024.

2. How are capital asset records maintained for the center?

An excel spreadsheet is maintained to track capital assets.

3. Are there any future plans for expansion or significant construction projects? If so, how will those be funded?

In 2023, the DECC was awarded \$5,000,000 in state legislative appropriation (bonding) funds toward the completion of capital improvement projects. Projects are commencing in 2024 and 2025.

4. Is any debt anticipated to be issued by DECC?

The DECC has two capital leases: 2022 Curling Club Ice Plant Lease and 2024 Scoreboard Lease. Additionally, a line of credit from the City of Duluth will provide bridge funding to complete the 2023 state legislative appropriation (bonding) capital improvements.

5. Were any audit adjustments proposed by the auditors during the 2023 audit of the DECC? If so, what was the nature of the adjustments?

2023 proposed audit adjustments:

- *Remove equipment from capital assets and/or finance purchase*
- *Adjust current portion of the financed purchase and adjust finance purchase payable*
- *Show net investment in capital assets*
- *Record CY change in net position*
- *Adjust PERA balances to YE balances*
- *Adjust SBITA's to the balance outstanding*
- *Show current portion of subscription liability and leases receivable*
- *Remove receivable closed out in PY, remove older advanced deposits, adjust receivables to actual*

Please acknowledge receipt of this Addendum by including a copy of it with your proposal. The pages included will not count toward any page limitation, if any, identified in the RFP.

Posted: **October 23, 2024**