

July 29, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

**SUBJECT: Procurement (Services) Contract –
Independent Accounting Services –
Contract Award**

SUMMARY

The Trustees are requested to approve an award of up to \$2.5 million to KPMG LLP (“KPMG”) to provide independent accounting services, including the annual audits of the Authority’s financial records for the years 2014 through 2018 and other services, as may be required, through July 31, 2019.

BACKGROUND

Section 2879 of the Public Authorities Law and the Guidelines for Procurement Contracts require the Trustees’ approval for procurement contracts involving services to be rendered for a period in excess of one year. The Public Authority Accountability Act of 2005 provides that the Audit Committee shall recommend to the Board of Trustees the hiring of a certified independent accounting firm. At their meeting of July 28, 2009, the Trustees approved the award of a contract to KPMG, for auditing and other services, for five years (2009 through 2013). That contract will expire on July 31, 2014.

DISCUSSION

In accordance with the Authority’s Procurement Guidelines, a request for competitive bids was posted on the Authority’s website and published in the New York State Contract Reporter on June 10, 2014 for independent accounting services. The audit services are to include preparation of the following for the years 2014 through 2018: (1) an opinion on the Authority’s financial statements; (2) an opinion on the Authority’s compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York; (3) a review of the Authority’s internal control over financial reporting, compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards and (4) a review of the Authority’s compliance with the requirements of a federal program and internal control over that compliance in accordance with OMB Circular A - 133. In addition, the independent accountant may be requested to perform other audit services (for example, reviews of debt offering statements) and non-audit services (for example, reviews of internal process and procedural matters). In response to this request, the Authority received a bid from KPMG, its current independent accountant.

During the term of its current contract, KPMG has developed an in-depth understanding of the Authority’s operations and finances and has committed to assigning senior personnel with

extensive utility experience to the Authority's audit team. The proposed engagement partner has a deep understanding of the Authority's local regulatory and operating environment, having served as lead partner for several large regional utility clients. In addition, KPMG plans to assign technical resources who have demonstrated their ability to address emerging complex technical issues. The firm has a large national auditing practice with significant experience in both the utility and government sectors.

KPMG's proposed total maximum price, of \$1,572,500, to perform the Authority's audits for the years 2014 through 2018, is 16% over its current fee or 3.2% per year. This is essentially an inflationary increase and is reasonable. In addition, KPMG's proposed hourly rates to perform other audit services and non-audit services are also reasonable. Based on KPMG's proposed hourly rates, historical experience and projected services, staff estimates total expenditures over the five-year contract will approximate \$2.5 million as follows: \$1.6 million for annual audit services, \$175,000 for other audit services and \$725,000 for non-audit services.

FISCAL INFORMATION

Payments over the term of the contract will be made from the Operating Fund.

RECOMMENDATION

Based on KPMG's qualifications to perform the services, reasonable price and hourly rates, and satisfaction of the bid requirements, the Audit Committee recommends that the Trustees approve the award of a five-year contract to KPMG LLP to perform the annual audits of the Authority's financial records for the years 2014 through 2018 and perform other services, as may be required, through July 31, 2019 in an amount not to exceed \$2.5 million.

For the reasons stated above, I recommend the approval of the above-requested action by adoption of the resolution below.

Eugene L. Nicandri
Chairman, Audit Committee

RESOLUTION

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority and provisions of the Public Authority Accountability Act of 2005, the award and funding of a multi-year procurement contract to KPMG LLP is hereby approved for the period of time indicated, as recommended in the foregoing memorandum from the Chairman of the Audit Committee in the amount and for the purpose listed below:

| <u>O&M</u> | <u>Projected Closing Date</u> | <u>Contract Approval</u> |
|---|--|-------------------------------------|
| Independent Accounting Services KPMG LLP | 7/31/19 | Not to exceed \$ 2.5 million |

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chair, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.