

**REPORT FROM EVALUATION COMMITTEE
REQUEST FOR PROPOSAL FOR
PROFESSIONAL AUDIT SERVICES**

June 4, 2015

COMMITTEE MEMBERS:

Mike Lima, Controller/Finance Director, City of Fresno Finance Department
Karen Bradley, Assistant Controller/Finance Director, City of Fresno Finance Department
Margaret Bell, Principal Accountant, City of Fresno Finance Department
Kim Jackson, Management Analyst III, City of Fresno Finance Department
Cheryl Carlson, Management Analyst III, City of Fresno Fire Department
Yvonne Dedmore, Senior Accountant-Auditor, City of Fresno Airports Department
Lolita Aram, Accounting and Financial Division Chief, Fresno County Auditor-Controller/Treasurer
Tax Collector

Jean Thomas-Runnels from the City's Purchasing Division was the facilitator to the Committee

BACKGROUND:

The goal of this Request for Proposal (RFP) was to solicit proposals from qualified certified public accounting firms to conduct the annual independent audit of its financial transactions and to express an opinion on the fairness of the presentation of the City's financial statements for a minimum of the fiscal year ending June 30, 2015, and the three (3) subsequent fiscal years thereafter. With the completion of the Fiscal Year 2014 CAFR, our contract with Macias, Gini, and O' Connell (MGO) for audit services reached the end of its term. MGO has been the auditor of the City's CAFR and associated financial reports for almost seven years, having obtained that business by buying out another firm that had been awarded the City's audit contract. The purpose of the examination of the accounts and records is to enable the AUDITOR to express an opinion on the fairness of presentation, in all material respects, of the general purpose financial statements of the City for the fiscal years ended June 30, 2015, 2016, 2017, and 2018, and the results of its operations in conformity with generally accepted accounting principles and applicable laws and regulations. This contract would be for Four (4) years with Three (3) One year extensions.

Thirteen (13) proposals were downloaded from the City's Planet bid site and Five (5) proposals were received and opened on March 2, 2015.

The committee held its first meeting on April 16, 2015. At that meeting, it was determined that the proposal received from Lance, Soll, and Lunghard and the proposal received from Price, Page, and Company were non-responsive. Interviews were conducted with the remaining three (3) proposers on April 23, 2015. It was then determined by the committee to do request a Last, Best, and Final (LBF) proposal for clarification and pricing, from the three (3) remaining proposers who meet the criteria of the RFP. The LBF proposals were received and opened on 5/1/15. The Last, Best, & Final figures provided by the three (3) firms reflected a substantial reduction in cost from their initial responses.

EVALUATION BY COMMITTEE:

Brown & Armstrong (B&A)

This proposer offered the lowest rates over a four year term, with an all-inclusive LBF price of \$700,995. While their main office is in Bakersfield, Ca., they also maintain a field office in Fresno. B&A management indicated with offices in Fresno and Bakersfield they would provide the staffing for the audit leading to lower travel expenses and thereby reducing the cost to the City. B&A is currently the auditor for the City of Fresno Retirement System and the County of Fresno. They audit the CAFRs for several municipalities, including Bakersfield, so they are familiar with the City and municipalities accounting procedures. To award a contract to B&A would provide a “fresh set of eyes” on the City’s financial processes. Under the Sarbanes-Oxley law, publically traded companies are required to change the audit partner and other audit staff every five years. While Sarbanes-Oxley does not apply to governmental agencies, it has been a recognized practice in government to rotate audit staff/entire audit firms on a regular basis. . The Committee was impressed with the experience and qualifications of B&A. It was clear that B&A understands local government operations. They have an effective stratified company-wide organizational structure that would provide expertise and management support throughout the contract. They are a regional firm, and may not have the accounting industry resources to be as familiar with the implementation of new accounting standards as the current service provider, which could result in an audit with less depth than the City’s current provider. However, with a savings of \$320,000 (31.4%) lower over the four year term than MGO, the committee recommends awarding to Brown & Armstrong. Their proposal meets all the RFP requirements and offers the City the best overall price.

Lance, Soll, & Lunghard (LSL)

LSL had the fourth lowest proposed rates in the initial response for audit services at \$898,600.. This proposer failed to attach or accept the Auditing Service agreement , nor did they agree to the City’s proposed schedule of progress payments.. Because of these omissions, this proposal was considered to be non-responsive due to the fact that they failed to conform to the terms and conditions of the RFP.

Macias, Gini, and O’ Connell (MGO)

This proposer is the City’s most recent auditor and provided the highest all inclusive LBF price of all finalists (\$1,021,188). MGO has been the auditor of the City’s CAFR and associated financial reports for almost seven years. This proposer is the largest firm of the respondents. They have a strong involvement in national accounting organizations and are thereby able to implement new accounting standards with more resources than most audit firms. MGO has the accounts for the majority of larger cities (by population) in California. MGO’s greatest strength in their proposal was offering the City 2,198 audit hours, far more hours than then any of the other proposers. However, MGO is the most expensive of all the finalists (and proposers): \$320,000 higher than B&A over the four year term of the contract based upon the estimated hours needed to perform the audit. The proposal was responsive and their service to the City has been excellent .

Price, Page & Company (Price, Page)

This proposer's came in third of the initial submissions at \$874,938. However, this proposer did not provide answers to several items required in the RFP, including:

- Did not indicate their proposal was good for 90 days
- Did not offer a fee range for additional work/programs
- Did not offer a segmentation of the audit schedule
- Did not offer a commitment to the proposed audit timeline
- Did not agree to the City's proposed schedule of progress payments.

This proposal is considered to be non-responsive due to the fact they failed to conform to the terms and conditions of the RFP.

The Pun Group (Pun)

This proposer's price came in second at \$818,930. Pun was the only finalist to reduce the number of hours they had assigned to the audit (1,506 in their LBF, which was a reduction from the 1,682 hours identified in their original proposal). The committee felt the LBF number of hours would not be sufficient to perform the required services. Pun also indicated in their initial response that they were associated with a local firm for the proposed engagement. The local firm they identified was their own office located in Walnut Creek. When queried on this point during interviews, Pun management said they planned to open an office "in the Valley".

RECOMMENDATION

The Committee therefore, recommends award of the contract to Brown & Armstrong (B&A) of Bakersfield, Ca. in the amount of \$700,995 , for audit services with a contract term of four years with provisions for three (3) one- year extensions..

Attachment: Matrix Summary of Information Submitted by Proposers