



Date: February 14, 2012

To: Thomas Bonfield, City Manager
Through: Wanda Page, Deputy City Manager
From: Germaine Brewington, Audit Services Director
Subject: Selection of External Auditor

Executive Summary

In January, representatives from the Departments of Audit Services, Water Management, Parks and Recreation and Equal Opportunity/Equity Assurance formed an auditor selection committee. The committee's task was to evaluate proposals in accordance with the City's professional services procurement policies and procedures and recommend an audit firm to perform the City's annual independent external audit.

The Department of Audit Services solicited proposals from interested firms. The Audit Services Department received four proposals. The proposals were evaluated according to selection criteria determined prior to receipt of the proposals.

After extensive review and evaluation of the proposing firms' proposals, the committee recommends accepting the proposal of Cherry Bekaert & Holland, LLP. The ASOC committee at its meeting on January 23, 2012 approved the recommendation.

The contract to audit accounts must be approved by the North Carolina Department of State Treasurer's Local Government Commission. A copy of a contract is attached.

Recommendation

Accept the contract and the engagement letter of Cherry, Bekaert & Holland, LLP, external auditor for the FY 2012 financial audit as approved at the January 23, ASOC meeting. The contract amount is for \$65,000.00.

Background

What is an External Audit?

The City of Durham is required by NCGS 159-34 to have an annual financial audit. The purpose of the audit is to obtain an opinion from the Certified Public Accountant on the City's general purpose financial statements. This audit is also referred to as the Generally Accepted Accounting Principle (GAAP) audit. GAAP is promulgated by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). A GAAP audit is done in accordance with the following principles:

- Generally Accepted Auditing Standards
- Government Auditing Standards issued by the Comptroller General of the United States of America.

In addition to the GAAP audit, the City is required to have a Single Audit. It is required because the City receives major federal and state grants. This audit is required by the following authorities:

- The Single Audit Act of 1984 and the amendment of 1996. This act requires the City to have a Single Audit done in compliance with OMB Circular A-133 (Audits of States, Local Governments, and Non-profit organizations).
- The State Single Audit Implementation Act.

For the GAAP and Single Audit, the external auditors examine the following:

- Internal control systems
- Systems in place to ensure compliance with laws and regulations affecting the expenditure of Federal and State funds
- Financial transactions and account balances
- Financial statements and reports

What is the term of an Audit Contract?

By law the audit contract is for the audit of one fiscal year. The general practice is to have annual contracts with a firm for a minimum of three to five years before a request for proposal is done.

What are the criteria for selecting external auditors?

Under NCGS 159-34(b), the North Carolina Department of State Treasurer has statutory authority to issue rules and regulations concerning the audit of the City. The State Treasurer's office has issued a memorandum on current rules and regulations concerning an audit. This Memorandum (#878) is dated January 29, 1999. The subject is "Contract to Audit Accounts and Approval of Interim and Final Invoices". This memorandum recommends the following criteria to be used when selecting an audit firm:

- Jurisdiction should use a two part process that has been recommended by National Intergovernmental Audit Forum (NIAF). The first part is to make a determination of the firm's credentials and fitness to conduct an audit. This is done in the absence of the knowledge of the firm's monetary bid. The firms meeting the requirements in the first part of the process move to the second part, which is the evaluation of the cost. The memorandum states that this process provides the staff with an objective basis for selecting an auditor who did not submit the lowest bid, but may be the best qualified to perform the audit.
- The memorandum also requires approval of the audit contract and each invoice by the State Treasurer's Department. The other requirement is that the audit has to be completed and submitted by October 31st to the State Treasurer's Department.

In addition, the firm selection is a critical component in obtaining the administrative goals of providing accurate, useful, and timely financial information to all the City's stakeholders.

Who has audited the City?

Since 2008, McGladrey and Pullen, LLP has audited the City. The firm has used the Raleigh office to conduct the City's audit.

Issues and Analysis

The City received proposals from four Certified Public Accounting firms in response to the RFP: Cherry Bekaert & Holland, LLP, Martin Starnes & Assoc., CPAs, McGladrey & Pullen, LLP, and Elliott Davis, PLLC.

During the evaluation and selection phase, the committee followed and documented a process that conformed to the recommendation from the National Intergovernmental Audit Forum (NIAF) and the Local Government Commission. As stated earlier, this guidance recommended that the initial determination of the firm's credentials and fitness to conduct the audit be done in the absence of the knowledge of the firm's monetary bid on the engagement.

The selection committee used the following criteria to evaluate the firm's credentials and fitness to conduct the audit:

- Profile of audit firm (including prior governmental auditing experience)
- Commitment to governmental accounting and auditing
- Qualifications of the staff to be assigned to the audit engagement
- Audit approach (client assistance and schedule as to time frame of City's deadline requirements)
- Quality control
- Location of audit office and home office of audit team
- Responsiveness to the RFP (completion of SDBE forms)
- Additional information (any other contributing factors that would influence decision)

Proposals received were carefully analyzed and compared to selection criteria. The selection committee reviewed the proposals from McGladrey and Pullen, LLP, Cherry Bekaert & Holland, LLP, Martin Starnes & Assoc., CPAs, and Elliot Davis, PLLC.

After a lengthy discussion on the methodology of scoring the cost proposals, the cost estimates were reviewed. Cherry Bekaert & Holland, LLP submitted the lowest cost proposal.

Based on both of these processes, the selection committee chose Cherry Bekaert & Holland, LLP. The recommendation is based on the following:

The audit selection committee determined that Cherry Bekaert & Holland, LLP's qualifications most closely matched the RFP requirements issued by the City of Durham.

- The firm proposed partner and senior level staff with specific municipal government experience to conduct the audit
- The firm audits nine of the ten big cities in the State (Raleigh, Charlotte, Winston-Salem, etc)
- The firm has a diverse workforce
- Clients (City of Winston-Salem, City of Raleigh, City of Charlotte and Durham County) provided excellent reviews

- The firm submitted the lowest bid: year 1 – \$65,000.00, year 2 – \$67,000.00 year 3 - \$69,000.00 (\$19,000 less than the nearest competitor)

Alternatives

The City has the option to enter into a contract with McGladrey and Pullen, LLP, but this would cost the City an additional \$19,550.00.

Financial Impact

The total cost to audit the City’s financial statements for FY 2012 is \$65,000.00. The funding required will be included in FY 2013 Audit Services Department budget.

SDBE Summary

Equal Opportunity/Equity Assurance staff reviewed the proposal submitted by Cherry Bekaert and Holland, LLP to determine compliance with the Small Disadvantaged Business Enterprises Ordinance.

No SDBE goals were set for this project.

The workforce statistics for Cherry Bekaert and Holland, LLP are as follows:

<u>Total Workforce</u>	<u>704</u>		
Total # Females	436	62%	
# Males	268	38%	
# Black Males	10	1%	
# White Males	231	33%	
# Other Males	27	4%	
# Black Females	21	2%	
# White Females	335	39%	
# Other Females	80	9%	

Attachments

The contract and the external auditor engagement letter are attached.