

**COUNCIL ACTION FORM**

**SUBJECT: AWARD OF CONTRACT FOR PROFESSIONAL AUDITING SERVICES**

**BACKGROUND:**

Eide Bailly, LLP has provided financial audit services for the City of Ames (City) since the fiscal year ended June 30, 2003, and the current agreement ended with the fiscal year 2017 audit. The City is seeking services to audit the financial statements for fiscal year ending June 30, 2018, with an option of auditing the financial statements for the subsequent four fiscal years.

Best practices for audit services provided by the Government Finance Officers Association (GFOA) recommend that governmental entities enter into multi-year agreements of at least five years in duration, which allows for greater continuity and helps to minimize the potential for disruption in connection with the independent audit. Multi-year agreements also help auditors spread start-up costs over several years rather than over a single year. GFOA also states that although it would be ideal to replace the independent auditor at the end of each audit agreement, the lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. **Instead, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has been satisfactory.**

On March 22, 2018, the City solicited Request for Proposal (RFP) to seven accounting firms and three bid service firms and received responses from five firms. The RFP was advertised on the Current Bid Opportunities section of the Purchasing Website. The RFP was for professional auditing services for the fiscal year ending June 30, 2018, with an option to extend the contract for each of the four subsequent fiscal years.

An evaluation committee comprised of City staff members from the Finance Department independently evaluated and ranked the proposals based on the matrix provided in the RFP. First, each firm had to meet four mandatory elements: 1) the firm is independent and licensed to practice in Iowa; 2) the firm has no conflict of interest with the City; 3) the firm adhered to the instructions for preparation of the proposal; and 4) the firm submits a copy of its last external quality control review report and the firm has a record of quality audit work. All of the firms met the mandatory requirements and were then evaluated for technical qualifications, representing 75% of the overall score and proposed costs accounted for 25%. The score of each criterion was based on a scale of 1 to 10 and then assigned a corresponding weight factor. The maximum possible score was 1000.

The technical qualifications were divided into expertise and experience and audit approach. Included in expertise and experience were past experience with comparable governments, quality of personnel assigned to the engagement, past experience with engagements that submit their Comprehensive Annual Financial Report (CAFR) to GFOA

for the Certificate of Achievement for Excellence in Financial Reporting, and Single Audit (audit of federal funds) experience with similar federal or state financial assistance programs. Elements of audit approach that were used to evaluate accounting firms were adequacy of proposed staffing plan for segments of the engagement, sampling techniques, analytical procedures, and approach to internal control understanding.

The proposed ranking and costs are listed below:

<b>Accounting Firm</b>	<b>Average Score</b>	<b>Rank</b>	<b>Fee Proposal</b>
Eide Bailly LLP, Dubuque, IA	883	1	275,700
RSM US LLP, Davenport, IA	803	2	303,850
BKD LLP, Kansas City, MO	748	3	351,900
CliftonLarsonAllen LLP, Cedar Rapids, IA	728	4	273,400
Denman & Company LLP, West Des Moines, IA	701	5	276,400

Based on an unanimous decision by the evaluation team, Eide Bailly LLP, Dubuque, IA, has been determined the best value to the City. Eide Bailly LLP stands out as the strongest firm for the following reasons:

1. The office of Eide Bailly LLP that will be responsible for the City's audit (Dubuque) currently performs audits of 18 local governments in Iowa. Of those, 12 are subject to a Single Audit and ten receive the GFOA Certificate of Achievement for Excellence in Financial Reporting. Firm-wide, Eide Bailly LLP has approximately 200 full-time professionals who devote their time to governmental engagements and share knowledge across the firm.
2. As stated above, Eide Bailly LLP currently audits ten Iowa cities that receive the GFOA Certificate of Achievement for Excellence in Financial Reporting. In addition, the engagement partner and manager assigned to the City's audit are members of the GFOA Special Review Committee, which is a group of individuals with public sector experience who evaluate CAFRs submitted for the GFOA Certificate of Achievement for Excellence in Financial Reporting.
3. City personnel have been satisfied with the work Eide Bailly LLP has performed for the City for the past 15 years. Eide Bailly LLP staff is knowledgeable, and meet all agreed-upon deadlines. The staff retention rate at Eide Bailly LLP is high in relation to other public accounting firms, resulting in continuity of staff assigned to the audit. This is important for efficiency of the audit.

City staff also considered the issue of auditor rotation since there has been much discussion over the past several years among accounting and investment professionals on the value of auditor rotation, especially for audits of publicly-traded companies. The Sarbanes-Oxley Act of 2002 (SOX) required that the U.S. General Accounting Office (GAO) conduct a study of the potential effects of mandatory auditor rotation for publicly-traded companies. The GAO concluded that mandatory auditor rotation may not be the most efficient way to strengthen auditor independence and improve audit quality, thus

auditor rotation is not required. As an alternative, Eide Bailly LLP has changed audit partners and managers assigned to the City's engagement over the years, allowing for a fresh perspective. The audit partner Eide Bailly LLP proposed to work on the City's audit has been the engagement partner for two years.

**The only proposal with a five-year fee proposal lower than that of Eide Bailly was CliftonLarsonAllen LLP. The evaluation team agreed that the experience Eide Bailly has auditing Iowa municipalities that receive the GFOA Certificate of Achievement for Excellence in Financial Reporting far exceeds that of CliftonLarsonAllen.**

**ALTERNATIVES:**

1. Award a contract to Eide Bailly LLP, Dubuque, IA, to professionally audit the City's financial statements for the fiscal year ending June 30, 2018, with the option of auditing the financial statements for each of the four subsequent fiscal years.
2. Direct staff to award a contract with another firm that submitted a proposal for auditing services.
3. Reject all proposals and refer back to staff.

**MANAGER'S RECOMMENDED ACTION:**

City staff performed a thorough evaluation of qualified accounting firms to provide professional auditing services for the City. Eide Bailly LLP is highly qualified in auditing comparable cities in Iowa and has proposed a favorable proposal. The City has been satisfied with the performance of Eide Bailly LLP and believes it will continue to perform to meet the standards of the City.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, thereby awarding a contract with Eide Bailly LLP, Dubuque, IA, to professionally audit the City's financial statements for the fiscal year ending June 30, 2018, with the option of auditing the financial statements for each of the four subsequent fiscal years.