

ITEM #: 28
DATE: 06-27-23
DEPT: FIN

COUNCIL ACTION FORM

SUBJECT: AWARD OF CONTRACT FOR PROFESSIONAL AUDITING SERVICES

BACKGROUND:

Eide Bailly, LLP has provided financial audit services for the City since the fiscal year ended June 30, 2003, and the current agreement ended with the FY 2021/22 audit. The City is seeking services to audit the financial statements for fiscal year ending June 30, 2023, 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 May 3, 2023, the City issued a Request for Proposals (RFP) through AmesBids, the City's electronic bidding system, to nine accounting firms and three bid service firms. The RFP was for professional auditing services for the fiscal year ending June 30, 2023, with an option to extend the contract for each of the four subsequent fiscal years. Responses were received from two firms.

An evaluation committee composed of Finance Department staff independently evaluated and ranked the proposals based on the matrix provided in the RFP. Each firm had to meet four mandatory elements:

- 1) Independent and licensed to practice in Iowa
- 2) No conflict of interest with the City
- 3) Adherence to the instructions for preparation of the proposal
- 4) A satisfactory external quality control review report.

Both firms met the mandatory requirements and were then evaluated for technical qualifications, representing 80% of the overall score. Proposed costs accounted for the remaining 20% of the score. The maximum possible score was 500.

The technical qualifications included past experience with comparable governments, quality of personnel assigned to the engagement, past experience with engagements that submit their Annual Comprehensive Financial Report (ACFR) 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. The firms were also evaluated on the basis of the adequacy of their 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:

Accounting Firm	Average Score	Rank	Fee Proposal
Eide Bailly LLP, Dubuque, IA	390	1	
Year 1 (FY2024)			\$70,000
Year 2 (FY2025)			\$75,000
Year 3 (FY2026)			\$80,000
Year 4 (FY2027)			\$86,000
Year 5 (FY2028)			\$92,000
Total Cost			\$403,000
RSM US LLP, Davenport, IA	333	2	
Year 1 (FY2024)			\$99,000
Year 2 (FY2025)			\$104,275
Year 3 (FY2026)			\$109,985
Year 4 (FY2027)			\$115,225
Year 5 (FY2028)			\$120,870
Total Cost			\$549,355

The evaluation team unanimously decided that Eide Bailly, LLP, Dubuque, IA, would be 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 over 20 Iowa government entities, including six of the largest 16 cities in the state. Of these, 14 are subject to Uniform Guidance, and eight prepare Annual Comprehensive Financial Reports.
2. Eide Bailly, LLP currently audits at least seven Iowa cities/counties 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 ACFRs 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 20 years. Eide Bailly, LLP staff is knowledgeable and meets 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 regarding 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 that perform final reviews, 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 seven years.**

The Accounting budget for FY 2023/24 contains \$63,860 for Outside Professional Services. Staff will request a budget amendment in the fall for the additional \$6,140 to cover the first-year audit cost of \$70,000.

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, 2023, with the option of auditing the financial statements for each of the four subsequent fiscal years.
2. Direct staff to award a contract to another firm.
3. Reject all proposals and refer back to staff.

CITY 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 provided 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, as described above.