

## COUNCIL ACTION FORM

**SUBJECT: CONTRACT WITH CERTIFIED PUBLIC ACCOUNTING FIRM TO CONDUCT AUDIT SERVICES**

**BACKGROUND:**

The City of Ames issued a Request for Proposal (RFP) for audit services in April 2003 and received proposals from two qualified firms with costs as follows:

EideBailly LLP	\$ 42,500
McGladrey & Pullen	\$ 54,600

Both firms indicated a 3% annual increase in fees over the five-year contract term with a negotiated fee during 2004 for additional infrastructure valuation work. The City of Ames Purchasing Policy requires that RFPs for professional services in excess of \$50,000 be reported to the City Council for award at a City Council meeting. Deloitte and Touche performed audit services prior to the 2003 RFP. Their fee for the 2002 audit was \$61,415, plus an additional charge for GASB 34 work. Deloitte and Touche was excluded from the RFP process due to auditor rotation.

With the five-year term of the contract to be completed with the FY 2007 audit, we requested that EideBailly provide a quote for three additional years of audit services. EideBailly provided a quote of \$53,000 for FY 2008 with an additional \$1,250 for verification of the HUD required Real Estate Assessment Center (REAC) reporting, a new service since the last audit RFP. The EideBailly quote included annual increases of 4.4% to 5.0% over the three-year term and an increase in REAC verification of \$50.00 per year. The current cost of the audit is \$48,000 per year plus \$1,200 for REAC verification. An informal quote from the only other firm likely to bid on the project indicates that EideBailly, LLP remains the lowest cost qualified alternative.

There have been several new Statements on Accounting Standards (SAS) that will become effective in FY 2008. These statements will increase the amount of planning and risk assessment that audit firms are required to devote to each audit client. Based on discussions in AICPA training classes, we estimate that implementation of these SAS will increase workload for the audit firm by about 10%. Discussions with other cities have indicated that costs for audit services are expected to increase substantially beginning next year.

With the expected increase in audit costs and limited availability of firms qualified to conduct governmental audits, we believe it is very unlikely that the RFP process will result in lower cost than has been provided in a quote from EideBailly, and we may find that due to increased audit requirements on both government and private clients, qualified firms may be fully booked for the short-term. We have been pleased with the quality of audit services from our current audit firm. EideBailly remains fully independent and has rotated the partner in charge of the City of Ames audit beginning with the FY 2007 audit. Background information on EideBailly is included as an attachment to this Council Action Form.

**ALTERNATIVES:**

1. Waive the purchasing policy for request for proposals for professional services and approve a three-year agreement with EideBailly LLP to provide audit services for the City of Ames.
2. Deny the waiver and approval of a three-year agreement for audit services with EideBailly LLP, and refer back to staff.

**MANAGER'S RECOMMENDED ACTION:**

Due to the limited availability of qualified firms providing audit services and the receipt of a favorable quote from a highly qualified accounting firm, it is the recommendation of the City Manager that the City Council adopt Alternative #1, waiving the purchasing policy for request for proposals for professional services and approving a three-year agreement with EideBailly LLP to provide audit services for the City of Ames.

## **Background on EideBailly, LLP**

EideBailly LLP is the 23<sup>rd</sup> largest public accounting firm in the United States. with offices in Dubuque, Iowa; Phoenix, Arizona; Boise, Idaho; Oklahoma City and Tulsa, Oklahoma; Madelia, Mankato, and Minneapolis, Minnesota; Sioux Falls and Aberdeen, South Dakota; Billings, Montana; and Fargo, Bismarck, and Minot, North Dakota. They have 65 partners and approximately 600 professional and support personnel. Of this total, approximately 45 have experience in governmental auditing.

The firm's program for continuing professional education includes a requirement that all professional staff obtain education that exceeds the requirements of the AICPA and, where applicable, Government Auditing Standards.

The Dubuque office will provide services for the City of Ames audit and currently has three partners, four managers, three senior associates, three associates, and seven paraprofessional and clerical staff. There are nine CPAs on the staff. Of the 13 professional staff, nine are experienced in governmental auditing with years of experience ranging from one year to 23 years.

Similar engagements with other government entities in Iowa include:

- City of Dubuque, Iowa (population 57,500)
- City of Davenport, Iowa (population 100,000+)
- City of Burlington, Iowa (population 29,000)
- City of Iowa City, Iowa (population 62,000)
- City of Marshalltown, Iowa (population 26,000)
- City of Muscatine, Iowa (population 22,000)
- City of Cedar Falls, Iowa (population 35,000)
- Linn County
- City of Urbandale (population 29,000)
- Benton County
- Dubuque County
- Johnson County
- Louisa County