



Memo

To: Commissioners, First 5 Ventura County

From: Jennifer Johnson, Director of Operations (on behalf of the Administration and Finance Committee)

Date: March 20, 2014

Re: Recommendation to select CPA firm to perform auditing services for three years, beginning with fiscal year ending June 30, 2014

Background

In compliance with the Health and Safety Code, Section 130150, county commissions are required to conduct annual financial audits. County commissions are also subject to expanded compliance audit requirements.

The Commission periodically releases Requests for Proposals for auditing services. The last Request for Proposals (RfP) was released in October 2008, at which time Fanning and Karrh, the Commission's current auditors, were selected for a three year term with a subsequent two year extension.

In December 2013, an RfP for auditing services was publicly released, distributed to 20 firms through direct mail, with a legal notice posted in the newspaper, and the funding opportunity posted on the Commission's website. The RfP requested a bid for a five year period, inclusive of the costs for annual audits as well as for a Single Audit (required from time to time when the Commission expends \$500,000 or more of federal funds in a fiscal year).

Seven firms submitted proposals. The Commission's procurement procedures for selecting vendors call for 2 staff members and at least 1 external reviewer with expertise in the subject matter. Proposals were independently reviewed and rated by 2 staff members, the Commission's CPA consultant, and 2 members of the Administration/Finance Committee. A review committee met in February to discuss the proposals and formulate a funding recommendation for the Administration and Finance Committee and subsequently for the Commission.

Of the 7 proposals submitted, 4 were determined to be viable for consideration based on score and completeness of the proposal. Essentially, the proposals represented two different approaches: 1) a "CPA model" whereby the audit is completely performed by a CPA level professional and 2) a "staff model" whereby the audit is largely completed by entry/junior level staff with oversight from a CPA. Only one proposal implemented a "CPA model", which was submitted by the Commission's current audit firm. The three "staff model" proposals had varying degrees of CPA involvement and as that involvement increased, the cost also increased significantly. The staff model raised significant concerns on audit quality, rigor, technical experience, and continuity.

The review committee discussed auditor rotation, as the tenure of the Commission's current auditor firm is 9 years. The committee reviewed research which indicated that a mandatory auditor rotation system can do more harm than good and the disadvantages are generally greater than any benefits. An auditor's ability to analyze financial activity increases incrementally each year and rotation discards valuable knowledge useful in performing a rigorous audit. An American Institute of Certified Public Accountants (AICPA) study showed that "audit failures" are 3 times more likely to occur in first 2 years of an engagement. Time spent by both parties also increases by rotating. For auditors, mechanisms are already in place for preserving independence, including firm quality control (peer review), regulatory inspection and required professional training.

Ultimately, the review committee felt there was tremendous strength in the "CPA model" and maintaining continuity and the consistent relationship with Fanning & Karrh, CPAs. Fanning & Karrh submitted a very thorough, detailed proposal and received the highest score. Their fees are among the lowest. There is a positive working relationship and they have been a valuable partner with tremendous expertise. They have provided exceptional services that produce a very high quality, rigorous audit. The review committee felt there would be no benefit to changing audit firms and that quality could be negatively impacted by moving to a firm implementing a "staff model".

Recommendation

The recommendation is to engage Fanning & Karrh for an additional three years. After that time, the Administration/Finance Committee would re-evaluate for a two year extension.

The recommended action is to select Fanning and Karrh, Certified Public Accountants, as the vendor to perform financial and compliance auditing services in accordance with Health and Safety Code, Section 130150, for fiscal years ending June 30, 2014 through June 30, 2016. The action would also grant authority to the Executive Director to enter into an agreement for each year's annual audits up to the following amounts:

Financial and Compliance Audits

Fiscal year ending June 30, 2014: up to a maximum of \$15,900

Fiscal year ending June 30, 2015: up to a maximum of \$16,400

Fiscal year ending June 30, 2016: up to a maximum of \$17,000

Single Audits

In the event a Single Audit needs to be conducted for any given fiscal year, the cost is estimated to range from \$4,000 to \$6,000 per year, depending on complexity.