

# AGENDA ITEM

September

Action Item – Selection of Independent Auditor

DATE: September 6, 2007  
TO: Members, Board Audit Committee  
FROM: The Office of Finance  
SUBJECT: Selection of Independent Auditor

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## Executive Summary

At the direction of the Audit Committee, the Office of Finance initiated a request for proposal process for independent auditing services for the State Bar's annual financial statements and its statement of expenditures of mandatory membership fees for the years 2007-2011. The RFP was completed in May and was advertised on the Bar's website and the State's Department of General Services Contract Register. In addition, the RFP was direct mailed to firms that we had identified as meeting the legislature's requirements of being either an independent national or regional public accounting firm with at least five years experience in governmental auditing. We received four responses from firms that meet these requirements.

## Discussion

In July, finance staff evaluated the proposals submitted by the four accounting firms and interviewed each regarding their proposal audit scope, fees, and experience with auditing governmental agencies. The fees proposed by these firms for the 2007 audit ranged from \$155,000 to \$75,000. Outlined below is a summary of each proposal:

***Deloitte & Touche LLP:*** Deloitte is one of the big four national accounting firms and has served as the State Bar's auditors for more than a decade. During the past three years, Deloitte has performed auditing services for the California Department of Justice, the California Public Employees Retirement System and the California Teacher's Association to name a few.

Deloitte's fee proposal is:

Year	2007	2008	2009	2010	2011
Audit Fees	\$148,000	\$157,000	\$167,000	\$178,000	\$190,000
Travel Costs and other expenses	\$6,000	\$6,000	\$7,000	\$7,000	\$7,000
Total Fees	\$154,000	\$163,000	\$174,000	\$185,000	\$197,000
Hours estimated	1,000	1,000	1,000	1,000	1,000
Average Cost per hour	\$154	\$163	\$174	\$185	\$197

**McGladrey & Pullen:** McGladrey is the fifth largest national accounting firm. Their current and past governmental/non-profit clients include the San Diego County Regional Airport Authority, City of Riverside, and San Diego State University Research Foundation.

McGladrey's fee proposal is:

Year	2007	2008	2009	2010	2011
Audit Fees	\$151,288	\$163,348	\$176,362	See Note	See Note
Travel Costs and other expenses	\$3,870	\$4,180	\$4,877		
Total Fees	\$155,158	\$167,528	\$181,239		
Hours estimated	812	812	812		
Average Cost per hour	\$191	\$206	\$223		

Note: McGladrey declined to propose fees for 2010 and 2011 at this time.

**Maze & Associates:** Maze is a professional service corporation located in Pleasant Hill, California with a staff of 42 people. Maze specializes in governmental auditing and has numerous municipal clients including the cities of Palo Alto, Alameda, and Concord as well as other governmental entities such as the East Bay Municipal Utility District.

Maze's fee proposal is:

Year	2007	2008	2009	2010	2011
Audit Fees	\$75,030	\$77,572	\$80,414	\$83,007	\$86,129
Travel Costs and other expenses	\$0	\$0	\$0	\$0	\$0
Total Fees	\$75,030	\$77,572	\$84,414	\$83,007	\$86,129
Hours estimated	562	562	562	562	562
Average Cost per hour	\$133	\$138	\$150	\$148	\$153

**Macias Gini & O'Connell LLP:** Macias Gini is a regional firm with five offices in California and more than 150 employees. Macias specializes in governmental auditing. Its clients include the California State Teachers Retirement System, the cities of Oakland, San Francisco and San Jose, and the Bay Area Rapid Transit District (BART).

Macias's fee proposal is:

Year	2007	2008	2009	2010	2011
Audit Fees	\$96,176	\$98,986	\$102,090	\$105,020	\$108,522
Travel Costs and other expenses	\$1,154	\$1,188	\$1,224	\$1,261	\$1,299
Total Fees	\$97,330	\$100,174	\$103,314	\$106,281	\$109,821
Hours estimated	710	710	710	710	710
Average Cost per hour	\$137	\$141	\$145	\$150	\$155

### **Staff Recommendation**

In evaluating these proposals, staff ranked each firm according to a set of predefined criteria including: 1) the responsiveness of the proposal to the Bar's RFP requirements; 2) the firm's agreement with the State Bar's contracting requirements; 3) the technical ability, capacity and flexibility of the firm to perform the audit in a timely manner and on budget; 4) the proposed audit strategy; and 5) the total cost of the proposal.

Based on these criteria, staff ranked Macias Gini and O'Connell LLP with the highest overall score. Macias's maximum fee quote for the 2007 audit is \$22,300 higher than the maximum fee quote proposed by Maze & Associates; however, Macias estimated the number of hours to perform the audits at 710 as compared to 562 estimated by Maze. The hours estimated by Macias more closely reflect staff's estimate of the number of hours required to perform a thorough audit.

Staff recommends the award of contract for a five-year audit engagement to Macias, Gini and O'Connell.

### **Board Book Impact**

None

### **Recommendation/Resolution**

If the Audit Committee concurs with the recommendation of staff, adoption of the following resolution would be in order.

**RESOLVED**, that upon the recommendation of staff, the Audit Committee approves the award of a contract to Macias, Gini and O'Connell for auditing services for the State Bar of California for the years 2007-2011.