

AGENDA ITEM

181 November 15 2013

DATE: November 4, 2013

TO: Members, Audit Committee
Members, Board of Trustees

FROM: Peggy Van Horn

SUBJECT: Selection of Independent Auditor

EXECUTIVE SUMMARY

This agenda provides background information on the proposals the State Bar received from accounting firms to serve as independent financial statement auditors for the years 2013 through 2015. Staff seeks Committee and Board approval of its recommendation for the selection of auditor.

BACKGROUND

At the direction of the Audit Committee, the Office of Finance initiated a request for proposal (RFP) process for independent auditing services for the State Bar's annual financial statements and its statement of Mandatory Fees for the years 2013 – 2015. The RFP was completed in September and was advertised on the Bar's website. In addition, the RFP was direct mailed to 12 firms that staff identified as meeting the Legislature's requirements of being either an independent national or regional public accounting with at least five years' experience in governmental auditing. The State Bar received four proposals.

ISSUE

Whether to approve staff's recommendation for the selection of an independent auditor.

CONCLUSION

A new auditing firm should be approved.

DISCUSSION

In October, finance staff evaluated the proposals submitted by the four accounting firms and checked references for each. The fees proposed by these firms for the three-year

contract ranged from an annual cost of \$64,000 to \$133,000. Outlined below is a summary of each proposal:

Maze and Associates

Employs forty-eight professionals and is located in Pleasant Hill, CA. It was founded in 1986 and focuses on municipalities. The company references nearly 100 municipal clients to date. The total bid, including travel expenses, is \$63,875. This amount is based on 570 hours at an average hourly rate of \$112.

Moss Adams, LLP

Employs over 2,000 professionals, including 263 partners, and has 22 locations in six states. The company was founded in 1913 and is headquartered in Seattle, WA. The company provides accounting, tax, and consulting services to public and private middle-market enterprises in many different industries, including government. The total bid, including travel expenses, is \$133,320. This amount is based on 616 hours at an average hourly rate of \$216.

Macias Gini & O'Connell, LLP

Employs over 230 professionals and has six locations throughout California. It was founded in 1987 and offers a diverse array of assurance, tax and business management services to clients ranging from startup companies to middle-market public and private companies, the world's largest public pension system and California's largest local governments. Macias has been the State Bar's auditor for the last six years. The total bid, including travel expenses, is \$96,500. This amount is based on 705 hours at an average hourly rate of \$135.

Brown Armstrong Accountancy Corporation

Employs 95 professionals in five offices located primarily in California's central valley. They focus on annual financial statement audits, annual federal and state compliance audits, state controller report preparation and "financial health" analysis and consulting. It was founded in 1974 and specializes in the agriculture, construction and real estate, healthcare, oil and energy, and public sector industries. The total bid, including travel expenses, is \$75,030. This amount is based on 713 hours at an average hourly rate of \$95.

In evaluating these proposals, staff ranked each firm according to a set of predefined criteria including: 1) the responsiveness of the proposal to the State 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 Moss Adams with the highest overall score. Moss Adams's maximum fee quote for the 2013 audit is the highest of the four; however, staff believes that the experience, client base and size of the firm make it the most desirable firm for the next three years. While the Bar has had good service from Macias over the

past six years, we are aware of the Board's stated preference to periodically rotate auditing firms. Also noteworthy is this provision of the Bar Act: "In selecting the accounting firm, the board shall consider the value of continuity, along with the risk that continued long-term engagement of an accounting firm may affect the independence of that firm." (Gov. Code § 6145.)

FISCAL / PERSONNEL IMPACT:

The cost of the annual audit will be included in the 2014-2016 budgets.

RULE AMENDMENTS:

None

BOARD BOOK IMPACT:

None

RECOMMENDATION

On October 29th, the CFO met with Board Treasurer and Audit Committee Chair Heather Rosing and Trustee Michael Colantuono, Vice Chair to discuss the proposals. Both agreed that Moss Adams is the preferred firm.

PROPOSED BOARD COMMITTEE RESOLUTION:

Should the Audit Committee agree with the above recommendation, the following resolution would be appropriate:

RESOLVED, that the Audit Committee recommends the selection of Moss Adams to serve as the State Bar's independent auditor for the 2013 – 2015 audits.

PROPOSED BOARD OF TRUSTEES RESOLUTION:

Should the Board concur with the Audit Committee's recommendation, the following resolutions would be in order:

RESOLVED, that upon the recommendation of the Audit Committee, the Board hereby approves the selection of Moss Adams to serve as the State Bar's independent auditor for the 2013 – 2015 audits.