

# **OPEN SESSION AGENDA ITEM**

## **SEPTEMBER 2018 AUDIT COMMITTEE ITEM III.D.**

**DATE:** September 13, 2018

**TO:** **Members, Audit Committee**

**FROM:** Kevin Harper, Interim Chief Financial Officer

**SUBJECT:** **Appointment of New Audit Firm**

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### **EXECUTIVE SUMMARY**

This item seeks Audit Committee approval to appoint the certified public accounting firm Macias, Gini & O'Connell, LLP to serve as the State Bar's independent auditor of its financial statements for 2018, 2019 and 2020 with an optional two-year renewal.

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### **BACKGROUND**

At the direction of the Audit Committee, the Office of Finance initiated a request for proposal (RFP) for independent auditing services for the State Bar's annual financial statements and its Statement of Expenditure of Mandatory Fees for the years 2018 – 2020 initially and the years 2021 and 2022, if renewed. The RFP was publicly posted on the State Bar's website in July. In addition, the posting was directly communicated to ten firms that were identified by staff as meeting Senate Bill No. 36 requirements of being either an independent national or regional public accounting firm with at least five years' experience in governmental auditing. The State Bar received six proposals.

### **DISCUSSION**

In August 2018, finance staff evaluated the proposals submitted by the six accounting firms. The scope of work included the annual audit of the Bar's financial statements, annual audit of the Statement of Expenditure of Mandatory Fees, and the internal control audit required once every five years by the Board Book, Section 4, Tab 4.1, Article 1, Section 10. The fees proposed by these firms for the five-year contract term ranged from a total cost of \$568,960 to \$1,011,200. A summary of each proposal is provided below:

***Moss Adams, LLP***

Moss Adams has been the Bar's auditor the last five years. The firm employs over 2,900 professionals and staff within 25 office locations. The firm was founded in 1913 and is headquartered in Seattle, WA. The firm indicates it has nearly 200 governmental clients. The total annual bid, including travel expenses, is the highest bid at \$170,400. This amount is based on 590 hours at an average hourly rate of \$289.

***Brown Armstrong Accountancy Corporation***

Brown Armstrong Accountancy Corporation employs 71 professionals and is located in Bakersfield, CA. It was founded in 1974 and indicates it has approximately 150 governmental clients. The total annual bid, including travel expenses, is \$166,620. This amount is based on 830 hours at an average hourly rate of \$201.

***Macias, Gini & O'Connell, LLP***

Macias, Gini & O'Connell, LLP employs two hundred fifty professionals with eleven offices located in California, Florida, and India. It was founded in 1987 and indicates it has nearly 300 governmental clients. The total annual bid, including travel expenses, is \$125,000. This amount is based on 683 hours at an average hourly rate of \$180.

***Crowe, LLP***

Crowe, LLP employs over 4,000 professionals with 200 devoted to public sector clients. It was founded in 1942 and currently has 30 offices across the country with a strong presence in California. The firm indicates it has approximately 800 governmental clients. The total annual bid, including travel expenses, is \$118,000. This amount is based on 600 hours at an average hourly rate of \$197.

***Vavrinek, Trine, Day & Company, LLP***

Vavrinek, Trine, Day & Company, LLP employs two hundred professionals and staff. It was founded in 1948 and has ten offices in California and Arizona. The firm indicates it has approximately 300 governmental clients. The total annual bid, including travel expenses, is \$108,450. This amount is based on 769 hours at an average hourly rate of \$141.

***Maze and Associates***

Maze and Associates employs sixty professionals and is located in Pleasant Hill, CA. It was founded in 1980 and indicates it has approximately 150 governmental clients. The total annual bid, including travel expenses, is \$94,840. This amount is based on 756 hours at an average hourly rate of \$125.

In evaluating these proposals, staff ranked each firm according to a set of predefined criteria: (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 financial viability of the firms; and (5) the total cost of the proposal. Initial scoring was performed on the basis of responsiveness to the RFP requirements, agreement to State Bar contracting terms, technical ability and the total cost of the proposal.

The initial scoring resulted in three firms being moved to second round interviews – Macias, Gini & O'Connell; Maze and Associates; Vavrinek, Trine, Day & Company – and solicitation of a Best & Final Offer, which is reflected above. Staff contacted bidder references for each firm and invited them to participate in interviews with the State Bar selection team.

Second round scoring was performed by staff after the interviews. Based on the above criteria, Macias, Gini & O'Connell, LLP received the highest total score. The selection panel found the firm to have significant experience in serving State and local government entities in California,

and the references contacted indicated that satisfaction with the quality of their services. They had an excellent understanding of the scope of work requested by the State Bar. Their proposed fee of \$771,790 for the full potential five-year contract period is in the middle of the range proposed by the six bidders, but substantially below the fee charged by the current audit firm.

## **FISCAL/PERSONNEL IMPACT**

The contract for the initial three-year term totals \$375,000. If the contract is renewed for the two-year optional period, during which time the internal controls audit would take place, a contract amendment would be brought to the Board.

## **RULE AMENDMENTS**

None

## **BOARD BOOK AMENDMENTS**

None

## **STRATEGIC PLAN GOALS & OBJECTIVES**

Goal: 3. Improve the fiscal and operational management of the State Bar, emphasizing integrity, transparency, accountability, and excellence.

Objective: d: Reallocate funds to support the discipline system based on expenditure review, revenue enhancement measures, implementation of the Bar's reserve policy, and other reengineering efforts.

The cost of the annual audit will be included in the State Bar's 2019 – 2021 budgets.

## **RECOMMENDATION**

Staff recommends that the Audit Committee adopt the resolution below.

### ***Proposed Audit Committee Resolution:***

**RESOLVED**, that the Audit Committee approves the selection of Macias, Gini & O'Connell, LLP to serve as the State Bar's independent audit firm for the audit of Fiscal Years 2018, 2019 and 2020, with the option to renew for auditing of Fiscal years 2021 and 2022.

## **ATTACHMENT(S) LIST**

None