

SUBJECT: Selection of Auditor

PREPARED BY: Erling P. Nelson

DATE: 03/26/98

FOR AGENDA OF: April 13, 1998

SUMMARY: The Finance Department has prepared an RFP for auditing services and has mailed a notification of availability letter to each of the seven CPA firms that are registered with the Alaska Society of Certified Public Accountants as firms doing governmental auditing. As of this writing, five firms of the seven firms listed have requested a RFP packet.

Proposals are due to the city by 5:00 p.m., Monday, April 13, 1998. We are basically following the suggestions for procuring an audit published by the Intergovernmental Audit Forum. Per the RFP selection of the auditor is to be completed by April 30, 1998.

The next step is the evaluation process. I suggest that you appoint a committee of two council members and Dean W. Baugh, Senior Accountant, to complete the evaluation process and make a recommendation to the council at the April 27, 1998 meeting. Per the proposal, the committee may decide to interview each of the respondents.

I have enclosed pages from the Audit Forum which outline the remaining tasks, and the actual RFP.

FISCAL IMPACT: No Yes, amount requested: \$ Fund:

RECOMMENDED ACTION: Appoint Auditor Selection Committee.


Reviewed by: SARAH PALIN, Mayor

Attachments: 2

APPROVED + Amended
DATE: 4/13/98
BY: K. Yarns
Council Members Cottle &
Chappel will serve
on committee.

Technical Evaluation: Selecting a Qualified Auditor

Once the due date for proposals has passed, you can begin evaluating the bidders' qualifications. The technical evaluation is important for two reasons:

- it provides a systematic framework for selecting an auditor on the basis of the entity's established RFP criteria and
- it documents that the auditor was selected fairly.

By comparing your entity's requirements with the auditors' plans, skills, experience, commitment, and understanding of the audit requirements and then reviewing bidders' price proposals, you will be able to select the firm that can provide the best audit at the fairest price.

The Role of Committees

To limit errors in judgment and to bring varied perspectives to the technical evaluation of the proposals, you will probably want to establish an evaluation committee. The committee should be composed of people with experience in accounting, auditing, budgeting, or another specialty field pertinent to the required audit work. Your audit committee can also play an important advisory role in this process.

The Evaluation Process

We suggest separate evaluations of technical ability and price. The technical evaluation addresses the firms' technical qualifications and ability to

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Selecting a
Qualified Auditor**

perform the audit. Although for the work to be performed a significant factor in the selection of a qualified audit firm, you will likely to get a high quality audit at a fair price if both price and technical ability are taken into account when evaluating the successful bidder.

**Requiring
Minimum
Standards**

As a first step, we suggest that you require all bidders to meet certain minimum standards before evaluating either their technical qualifications or their price proposals. By doing so, you can spare your entity the need for a time-consuming technical evaluation of firms that do not meet your minimum standards. These minimum standards should be determined by the laws governing your entity, its general internal policies, and its policies regarding audit engagements. However, to delineate them, we suggest that the minimum standards include that

- meet the appropriate state licensing requirements,
- meet the applicable independence standard,
- have a record of responsible work,
- comply with applicable requirements for peer review and continuing educational education.

Technical Criteria

The technical criteria set out in this section and used in the evaluation process vary. At a minimum, however, the evaluation committee should

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answer "yes" to the following questions.

**Understanding
the Audit
Requirements**

- Does the proposal, both in the statement of the audit requirements and elsewhere, demonstrate that the firm has an understanding of the audit's objective(s), your organization's needs, and the final products to be delivered?

**Soundness of
Technical Approach**

- Does the proposal contain a sound technical plan and a realistic estimate of time required to complete the audit?
- Does the proposal show the bidder's intention to start the audit when required and complete the audit in a timely fashion?
- Does the technical plan show a practical approach to meeting benchmarks and specific deadlines?
- Does the proposal indicate that the firm will use (1) a systematic approach to examining systems and internal controls and (2) effective procedures, including consideration of risk and materiality, to determine the extent of audit testing and review necessary?
- Does the proposal indicate the bidder's willingness to use other auditors' work, to the extent possible, to avoid duplication of effort?

**Qualifications of the
Audit Firm**

- Does the firm have experience in performing the required work for entities of your type and size?

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- Do prior clients have a position of the firm?

**Qualifications of the
Audit Team**

- Does the proposal clearly show collective experience of the team assigned to the project?
- Does the proposal specify, in language, that key personnel education and experience in type of work that the audit entails?
- Is the experience explained in detail of specific audit engagements?
- Is the continuing professional education of key personnel explained in detail?
- Does the proposal indicate the amount of time to which your entity's personnel would be expected to contribute work effort?
- Does the proposal specify that key personnel must be notified in writing of their assignment in key personnel?
- If the proposal is for a multi-year contract, does it provide an approach for planning and conducting the audit efforts of the subsequent years?

**Rating the
Proposals**

Initial evaluations should be made of the bidders' proposals as submitted. As you evaluate the proposal, make a list of strengths and weaknesses of each to support its technical evaluation. After you complete the technical evaluation and review the prices submitted by the bidders, you may be prepared to select the proposal that is most advantageous to your entity.

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If, however, you feel you need more information before selecting a proposal, you should hold individual discussions with bidders who have a reasonable chance of being selected to allow them to respond to your concerns and submit revised proposals by a specified date. Care should be taken during these discussions not to reveal proprietary information submitted by other bidders. You should then evaluate the revised proposals as described above and award the contract on the basis of both technical competence and reasonable price.

Small Entities

Using a committee to carry out the evaluation process is especially important for small entities with limited resources. A more comprehensive analysis of the bids is likely to be achieved by having more people involved in the evaluation process.

The Written Agreement: Documenting Expectations

The lack of a written agreement between the entity contracting an audit and the audit firm can result in substandard audits performed by public accountants. To facilitate clear and productive communication and to avoid misunderstandings, bidders should agree in writing on important audit-related matters. Make the agreement from the start—before bidders start assessing the nature of the job and estimating its costs—that you will sign a formal document at the conclusion of the proposal process. Audit firms unwilling to consent to signing such a document should be better avoided.

A signed agreement represents a contract and is binding upon both parties. For that reason, when drafting the agreement, seeking the advice of the purchasing office or legal counsel to review the agreement's form and substance is important.

What to Include in a Written Agreement

When an RFP has been used, the written agreement should incorporate and reference the terms of the RFP, as well as those of the successful bidder's proposal. The letter should be signed by the entity and the audit firm. The written agreement will then specify the

- audit scope, objective, and period;
- deadlines for work to be performed;
- audit cost;
- report format;

- type and timing of support to be provided to the auditor by the entity; and
- professional auditing standards to be followed in performing the audit.

Furthermore, the agreement should make the following points about the auditor/entity relationship, changes in the kind or amount of work required, and access to and ownership of audit products.

- The relationship of the auditing firm to the entity is that of an independent contractor.
- At any time, the entity may, by written notice, make changes in or additions to work or services within the general scope of the agreement. If such changes are made, an equitable adjustment will be made in the cost of the audit using the rates specified in the agreement.
- If the contractor believes that a change in or addition to work is beyond the general scope of the agreement, it must notify the entity in writing within a specified time and before beginning that work. The agreement should indicate where the final administrative authority rests in deciding disputes.
- The workpapers prepared by the contracting auditor during the audit are its own property. These documents should be retained for a period to be designated in this agreement and made available to the entity and governmental auditors upon request.

**The Written Agreement:
Documenting Expectations**

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- All reports rendered to the entity, the contracting auditor are the exclusive property of the entity and subject to its use and control, according to applicable laws and regulations.

Small Entities

In the absence of an RFP, many small engagements are documented on an engagement letter prepared by a CPA that protects the CPA more than the entity being audited. If you decide to use an engagement letter as your written agreement, we advise including the information listed above and ensuring that the document is signed by both parties.

City of Wasilla, Alaska Request for Proposal

for

Auditing Services

for the Fiscal Years

1998 to 2002

City of Wasilla
REQUEST FOR PROPOSAL

I INTRODUCTION

A. General Information

The City of Wasilla is requesting proposals from qualified firms of certified public accountants to audit its financial statements for the fiscal years ending June 30, 1998, through June 30, 2000. These audits are to be performed in accordance with generally accepted auditing standards.

There is no expressed or implied obligation for the City of Wasilla to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

To be considered, five (5) original copies of the proposal (facsimile copies are not acceptable) must be received by Erling P. Nelson, Finance Director, at the City of Wasilla, Alaska, 290 E. Herning Ave. Wasilla, Alaska 99654-7091 by 5.00 p.m. on April 13, 1998 The City of Wasilla reserves the right to reject any or all proposals submitted.

During the evaluation process, the City reserves the right to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the City's discretion, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The City of Wasilla reserves the right to retain all proposals submitted and to use any ideas in the proposals regardless of whether the proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal, unless clearly and specifically noted in the proposal submitted and confirmed in the engagement agreement between the City of Wasilla and the firm selected.

It is anticipated the selection of a firm will be completed by April 30, 1998. Following the notification of the selected firm it is expected a Agreement will be executed between both parties by May 16, 1998.

B. Term of Engagement

A three-year Letter of Engagement is contemplated, with option to renew for three additional years, subject to the satisfactory negotiation of terms (including a price acceptable to both the City of Wasilla and the selected firm) and the concurrence of the Wasilla City Council.

II. NATURE OF SERVICES REQUIRED

A. General

The City of Wasilla is soliciting the services of qualified firms of certified public accountants to audit its financial statements for the fiscal years ending June 30, 1998 through 2000. These audits are to be performed in accordance with the provisions included in this request for proposal.

B. Scope of Work to be Performed

The City of Wasilla desires the auditor to express an opinion on the fair presentation of its general purpose financial statements in conformity with generally accented accounting principles.

The auditor shall also be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards.

C. Auditing Standards to be Performed

To meet the requirements of this request for proposal, the audit shall be performed in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants.

D. Reports to be Issued

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue a report on the fair presentation of the general purpose financial statements in conformity with generally accepted accounting principles.

Irregularities and illegal acts. Auditors shall be required to make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which they become aware to the Wasilla City Council.

E. Special Considerations

The City intends to continue participation in GFOA's Certificate of Achievement for Excellence in Financial Reporting Program. It is expected that the audit firm selected will prepare one original copy of the financial statements suitable for reproduction by the city. The city Finance Department will prepare and supply one copy of the supplementary statistical information required for the Certificate of Excellence in Financial Reporting Program and furnish it to the audit firm.

F. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a

minimum of three years, unless the firm is notified in writing by the City of Wasilla of the need to extend the retention period. The auditor will be required to make any and all working papers available, upon request, to the City of Wasilla..

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

III. Description of the Government

A. Principal Contact

The auditor's principal contact who will coordinate the assistance to be provided by the City of Wasilla to the auditor will be:

*Dean W. Baugh.
Senior Accountant
290 East Herning Ave.
Wasilla, Ak. 99645-7091
(907) 373-9070
fax (907) 373-9085
email - baugh@ci.wasilla.ak.us*

B. Background Information

The City of Wasilla serves an area of approximately 13 square miles having a population of 4,917. The City's fiscal year begins on July 1 and ends on June 30. The City has a total of 58 full-time equivalent employees. Services that are provided by the City of Wasilla to its residents are briefly outlined in the City's organizational chart included within 'Attachment A'.

Detailed information on the City and its finances can be found in the 1997 annual financial report, included with this request for proposal as "Attachment A". Additional information., including copies of the current year budget, can be obtained by contacting the individual referenced in section A above.

C. Fund Structure

The City of Wasilla uses the following fund types and account groups in its financial reporting:

<i>Fund Type/Account Group</i>	<i>Number of Funds</i>	<i>Number with Individual Annual Budgets</i>	<i>Legally Adopted</i>
General Fund	1	1	1
Special Revenue Funds	2	2	2
Debt Service Funds	6	5	5
Capital Projects Funds	4	4	4
Enterprise Funds	3	3	3
Internal Service	0	0	0
Pension Trust Funds	0	0	0
Agency/Trust Funds	2	1	1
General Fixed Assets Account Group	1	0	0
General Long-Term Debt Account Group	0	0	0

D. Budgetary Basis of Accounting

The City of Wasilla prepares its budgets on a basis consistent with generally accepted accounting principles.

E. Pension Plans

The City of Wasilla participates in one pension plan, the State of Alaska's PERS defined benefit plan.

F. Component Units

The City of Wasilla has no component units.

G. Joint Ventures

In 1996 the City entered into an intergovernmental agreement with the Matanuska-Susitna Borough, regarding the development of a joint public safety building. At this time the work has consisted of conceptual architectural renderings and study.

H. Magnitude of Finance Operations

The Finance Department is headed by Erling P. Nelson, Finance Director, and consists of six employees. The principal functions performed and the number of employees assigned to each are as follows:

<u>Function</u>	<u>Title</u>	<u>No. of Employees</u>
<i>Oversees Daily Financial Accounting and Reporting Operations Sales Tax Administration</i>	<i>Senior Accountant</i>	<i>1</i>
<i>Utility Billing/Assessments</i>	<i>Clerk</i>	<i>1</i>
<i>Accounts Receivable, Cash Receipts, Journal Entries, Purchasing</i>	<i>Accounts Rec.Clerk</i>	<i>1</i>
<i>Accounts Payable, Disbursements</i>	<i>Accounts Payable Clerk</i>	<i>1</i>
<i>Sales Tax</i>	<i>Sales Tax/Bus Lic Clerk</i>	<i>1</i>
<i>Files Administration</i>	<i>File Clerk</i>	<i>1</i>

I. Computer Systems

The City of Wasilla utilizes an AS400 System for its accounting and reporting functions along with governmental software packages licensed through Systems & Computer Technology Incorporated (SCT). The computer software packages include: financial system, payroll, utility billing, accounts payable, cash register; fixed assets, and business licensing.

The City's general purpose financial statements were produced by the prior auditors utilizing Excel and Word for Windows95.

J. Availability of Prior Audit Reports and Working Papers

Interested proposers who wish to review prior years' audit reports and management letters should contact Dean W. Baugh, Senior Accountant, at (907) 373-9070. The City of Wasilla will use its best efforts to make prior audit reports and supporting working papers available to proposers to aid their response to this request for proposal.

IV. Time Requirements

A. Audit Calendar

The auditors must be able to meet the following key dates for the fiscal year 1998 audit:

- 1) Interim work to be negotiated between the parties.
- 2) Draft reports to staff by October 15, 1998.
- 3) Per the Engagement Letter, the Audit report is to be completed by October 30, 1998.
- 4) Per 6.04.060 of the City Code the Audit report is to be completed by November 30, 1998.

V Assistance to be Provided to the Auditor and Report Preparation

A. Finance Department and Clerical Assistance

The Finance Department staff and responsible management personnel will be available during the audit to assist the firm by providing information, schedules, documentation, and explanations. The preparation of confirmations at the request of the auditor will be the responsibility of the City of Wasilla.

B. Report Preparation

The successful audit firm will prepare financial statements, notes and all required supplementary schedules and statistical data except that required for the certificate program.

The auditor shall provide all recommendations, revisions and suggestions for improvement to the Finance Director.

VI. Proposal Requirements

A. Deadline to Submit Proposal

Completed proposals must be received by 5:00 p.m. on April 13, 1998 and must satisfy the requirements set forth in the request for proposal.

B. Inquiries

Inquiries concerning the request for proposals and the subject of the request for proposal must be made to:

Dean W. Baugh.
Senior Accountant
290 East Herning Avenue
Wasilla, Ak. 99654-7091
(907) 373-9070
fax (907) 373-9085
email - baugh@ci.wasilla.ak.us

C. Independence

The firm should provide an affirmative statement that it is independent of the City of Wasilla as defined by generally accepted auditing standards.

D. Firm Qualifications and Experience

The proposal should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed and the number and nature of the professional staff to be employed in this engagement on full-time and on a part-time basis.

E. Partner, Supervisory and Staff Qualifications and Experience

The firm should identify the principal supervisory and management staff including engagement partners, managers and other supervisors, who would be assigned to this engagement and indicate whether each such person is registered as a certified public accountant in Alaska. The firm should also provide information on the government auditing experience of each person.

The firm should provide as much information as possible regarding the number, qualifications, experience and training of the specific staff to be assigned to this engagement.

Engagement partners, managers and other supervisors may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may also be changed for other reasons with the concurrence of the City of Wasilla. However, in either case, the City of Wasilla retains the right to approve or reject replacements.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially the same or better qualifications or experience.

F. Similar Engagements with Other Government Entities

For the firms' office that will be assigned responsibility for the audit, list the most significant engagements (minimum of 10) performed in the last three years that are similar to the engagement described in this request for proposal. Indicate the scope of work, date, engagement partner, total hours, and the name and telephone number of the principal client contact.

G. Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problems and any special assistance that will be requested from the City.

VII. Dollar Cost

A. Total All-inclusive Maximum Price

In a separate sealed envelope, the proposal should contain a price quote specifying all pricing information relative to performing the audit engagement as described in this request for proposal. The total all-inclusive maximum price is to include all direct and indirect costs including all out-of-pocket expenses

The City of Wasilla will not be responsible for expenses incurred in preparing and submitting the proposal. Such costs should not be included in the proposal

The first page of the cost schedule should include the following information:

- 1) Name of Firm*
- 2) Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the proposal and authorized to sign a letter of engagement with the City of Wasilla.*
- 3) The total all-inclusive maximum price quotes for the 1998- 2000 audit engagements described in this request for proposal, with each year's costs stated separately. Options should also be separately stated.*

B. Rates by Partner; Supervisory and Staff Level Times Hours Anticipated for Each

The cost schedule should include a schedule of professional fees and expenses broken into the above categories

C. Out-of-Pocket Expenses

The total all-inclusive maximum price is to include all anticipated out-of-pocket expenses.

D. Manner of Payment

Progress payments will be made on the basis of hours of work completed during the course of the engagement in accordance with the firm's proposal. Interim billings shall cover a period of not less than one calendar month.

VIII. Evaluation Criteria

Proposals will be evaluated using three sets of criteria. The following represent the principal selection criteria which will be considered during the evaluation process.

A. Mandatory Elements

- 1) *The audit firm is independent and licensed to practice in the State of Alaska.*
- 2) *The audit firm's professional personnel have received adequate continuing professional education within the preceding three years.*
- 3) *The firm has no conflict of interest with regard to any other work performed by the firm for the City of Wasilla.*
- 4) *The firm submits a copy of its most recent external quality control review report and the firm has a record of quality audit work*
- 5) *The firm adheres to the instructions in this request for proposal on preparing and submitting the proposal.*

B. Technical Qualifications

- 1) *The firm exhibits expertise based on past experience and performance on comparable government engagements.*
- 2) *The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be assigned to the engagement*

C Price Consideration

Cost will not be the primary factor in the selection an audit firm.

D. Oral Presentations

During the evaluation process, the City of Wasilla may request any one or all of the firms to make oral presentations. Such presentations will provide firms with an opportunity to answer any questions the City may have on a firm's proposal. Not all firms may be asked to make such oral presentations.

E. Final Selection

The City of Wasilla will select a firm based upon the evaluation criteria. It is anticipated that a firm will be selected by April 30, 1998. Following notification of the firm selected, it is expected a letter of engagement will be executed between both parties shortly following the approval by the Wasilla City Council.

F. Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals unless clearly and specifically noted in the

proposal submitted and confirmed in the contract between the City of Wasilla and the firm selected.

The City of Wasilla reserves the right without prejudice to reject any or all proposals.

IX. Attachments

B. City of Wasilla Comprehensive Annual Financial Report - Fiscal Year Ended June 30, 1997.