

## **Counting Your Dollars: Contracting for the Services of an Independent Auditor of County Finances**

### ***Synopsis***

“The purpose of an independent audit is to protect the equity of the entity audited with tests that determine if the assets are properly protected.”<sup>1</sup> This report covers the bid process for securing the services of an independent auditor for the County of Santa Cruz. It has been the practice of the county to go out to bid for external independent audit services every three to four years; however, the current external independent auditing firm has been retained for the past seven years. The bid process was used to select a new external independent auditor for the County of Santa Cruz.

### ***Background***

The Grand Jury, as required by law, is responsible for performing an independent audit of county offices and investigating spending by city and county governments. The investigations may be conducted on a selective basis each year but shall not duplicate examination or financial statements that have been performed, by or for, the Board of Supervisors.<sup>2</sup> In earlier years, the Grand Jury budget included funds to employ an outside independent auditor to fulfill these duties. Subsequently, while retaining oversight of this task, the Grand Jury transferred to the County of Santa Cruz the responsibility for contracting with an external independent auditor for these services, along with the budget item to cover this expense. To fulfill both the county and Grand Jury responsibilities to conduct audits of county records, a County Audit Committee was formed. This committee is comprised of Santa Cruz County Administrative Officer/Representative, County Auditor-Controller, County Treasurer/Tax Collector/Recorder/Clerk and two members of the Santa Cruz County Grand Jury. In addition, two members of the Treasurer Oversight Committee have been added to the County Audit Committee membership.

### ***Scope***

The County of Santa Cruz contracts with an outside audit firm to furnish independent audit and compilation services of county accounts. These services are obtained through a Request for Proposal (RFP) bid process. Two members of the Santa Cruz County Grand Jury, one from the Audit and Finance Committee and one from the Grand Jury

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<sup>1</sup> Rudolph Vargas, Vargas and Company, Minutes Audit Committee Meeting, August 25, 2004.

<sup>2</sup> Penal Code § 925 and Government Code § 25250.

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membership at large, followed the bid process from the Invitation to Bid to the Recommendation of Acceptance of the best contract.

## **Sources**

### **Meetings:**

County of Santa Cruz Audit Committee:

- August 25, 2004.
- February 14, 2005.
- May 9, 2005.
- June 6, 2005.

Bidders' Conference, December 10, 2004.

Analysis of Bids, February 14, 2005.

Entrance Conference, June 6, 2005.

### **Reviewed:**

Bidders' List.

Comprehensive Annual Financial Report, Fiscal Year 2003.

County Analysis for Award of Contract.

Government Code § 25250.

Grand Jury Reports:

- 1990-1991.
- 1997-1998.
- 1999-2000.
- 2000-2001.
- 2001-2002.

Management Letter, Fiscal Year 2003.

Management Letter, Fiscal Year 2004.

Penal Code § 925.

Request for Proposal.

Single Audit Report, Fiscal Year 2003.

## **Findings**

1. It has been the practice of the county to request proposals for independent audit services every three or four years.

**Response: Santa Cruz County Board of Supervisors AGREES.**

2. The current independent audit firm has provided services for seven years.

**Response: Santa Cruz County Board of Supervisors DISAGREES.**

*The current audit firm, Vargas and Company, served as the county's auditor for six years; from fiscal year 1998-99 to fiscal year 2003-04.*

3. The 2001-2002 Santa Cruz County Grand Jury Final Report recommended that retention of an independent auditor should be reviewed every three years and changed at least every six years.

**Response: Santa Cruz County Board of Supervisors AGREES.**

**Response: Santa Cruz County Auditor-Controller AGREES.**

**Response: On behalf of the Santa Cruz County Audit Committee, the Auditor-Controller AGREES.**

4. This Request for Proposal process was to select an independent auditor to prepare an annual audit for the County of Santa Cruz beginning with the fiscal year ending June 30, 2005. The contract would be awarded for one to three years, whichever would be the most cost effective for the county.
5. The independent audit firm provides various reports to the Santa Cruz County Audit Committee throughout the year. These reports require County Audit Committee review.
6. The Request for Proposal process began with preparation of the bid documents that:
  - outlined the requirements of the county;
  - described the basis on which the bids would be judged; and
  - requested the qualifications of the bidders.

Invitations to Bid were sent to 44 qualifying accounting firms, locally and throughout northern and central California. Four bidders attended the bidders' conference on December 10, 2004. Proposals were received on January 14, 2005 from all four firms present at the bidders' conference. The proposals were evaluated according to the criteria established in the bid documents as outlined in Appendix A. Using this comprehensive criteria, the County Audit Committee recommended awarding the contract to the firm that best met the county's needs: Bartig, Basler, and Ray.

7. Two members of the Santa Cruz County Grand Jury are active members of the County Audit Committee.

**Response: On behalf of the Santa Cruz County Audit Committee, the Auditor-Controller AGREES.**

## ***Conclusions***

1. Response to Santa Cruz County's request for proposals was minimal.

2. The County Audit Committee did not follow the recommendation of the 2001-2002 Santa Cruz County Grand Jury stating that independent audit services should be reviewed every three years with no one firm providing services for more than two consecutive three-year contracts. Good accounting practices and procedures dictate a change of auditing firms.
3. Criteria used to evaluate bids were comprehensive.
4. Grand Jury membership on Santa Cruz County Audit Committee fulfills the Grand Jury's mandated responsibilities as outlined in Penal Code § 925. The County Audit Committee met four times during fiscal year 2004-2005.

### **Recommendations**

1. The County of Santa Cruz Auditor should continue to actively seek and qualify new bidders for future invitations for proposals and should update the current list.

**Response: Santa Cruz County Board of Supervisors AGREES.**

*This recommendation has been implemented. The Auditor-Controller's Office continuously adds qualified CPA firms to the bidder list. Staff members attend professional meetings and conferences and maintain contact with other California Auditor-Controller Offices, both of which are excellent sources of information regarding qualified audit firms.*

**Response: Santa Cruz County Auditor-Controller AGREES.**

*This recommendation has been implemented. The Auditor-Controller's Office continuously adds qualified CPA firms to the bidder list. Staff members attend professional meetings and conferences and maintain contact with other California Auditor-Controller Offices, both of which are excellent sources of information regarding qualified audit firms.*

2. Review of the contract for independent audit services or invitation to bid should be scheduled every three years with no one firm providing services for more than two consecutive three-year contracts.

**Response: Santa Cruz County Board of Supervisors AGREES.**

*This recommendation has been implemented. Review of the contract for independent audit services or invitation to bid is scheduled every three years. Although there is a definite benefit to changing auditing firms at least every six years, it may not always be in the county's best interest to prohibit a firm from submitting a bid for a third term. After reviewing the proposals for audit services with the Auditor-Controller, the County Audit Committee recommends to the Board of Supervisors the best-qualified and most cost-effective auditing firm.*

**Response: Santa Cruz County Auditor-Controller AGREES.**

*This recommendation has been implemented. Review of the contract for independent audit services or invitation to bid is scheduled every three years. There is a definite benefit to changing auditing firms at least every six years. However, it may not be in the county's best interest to prohibit a firm submitting a bid for a third term. That firm may clearly be the best qualified and most cost effective. For example, during the most recent audit selection process, the county was fortunate to have a well-qualified firm submit a competing bid that was comparable to the bid submitted by the incumbent firm. Only two other firms submitted bids; one firm was clearly unqualified and the other firm was \$40,000 (62%) higher each year. If a competitive bid had not been received from a challenging firm, the county could have been faced with some difficult choices.*

**Response: On behalf of the Santa Cruz County Audit Committee, the Auditor-Controller AGREES.**

*This recommendation has been implemented. Review of the contract for independent audit services or invitation to bid is scheduled every three years. There is a definite benefit to changing auditing firms at least every six years. After reviewing the proposals for audit services with the Auditor-Controller, the County Audit Committee recommends to the Board of Supervisors the best-qualified and most cost-effective auditing firm.*

3. The County of Santa Cruz should continue to notify the Grand Jury of County Audit Committee activities.

**Response: Santa Cruz County Auditor-Controller AGREES.**

*This recommendation has been implemented. The Auditor-Controller considers the Grand Jury an essential component of the audit process and the County Audit Committee.*

4. The County Audit Committee should continue to meet at least twice each year, more frequently if needed.

**Response: Santa Cruz County Board of Supervisors AGREES.**

*This recommendation has been implemented. The County Audit Committee meets at least twice annually. The Comprehensive Annual Financial Report and the related Management Letter comments and responses are reviewed at one meeting, and the kick-off of the annual county audit is conducted at another meeting. The County Audit Committee holds additional meetings to review the request for proposal for audit services during years in which one is being prepared.*

**Response: Santa Cruz County Auditor-Controller AGREES.**

*This recommendation has been implemented. The County Audit Committee meets at least twice annually. The Comprehensive Annual Financial Report and the related Management Letter comments and responses are reviewed at one meeting, and the*

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*kick-off of the annual county audit is conducted at another meeting. The County Audit Committee holds additional meetings to review the request for proposal for audit services during years in which one is being prepared.*

**Response: On behalf of the Santa Cruz County Audit Committee, the Auditor-Controller AGREES.**

*This recommendation has been implemented. The County Audit Committee meets at least twice annually. The Comprehensive Annual Financial Report and the related Management Letter comments and responses are reviewed at one meeting, and the kick-off of the annual county audit is conducted at another meeting. The County Audit Committee holds additional meetings to review the request for proposal for audit services during years in which one is being prepared.*

**Responses Required**

<b>Entity</b>	<b>Findings</b>	<b>Recommendations</b>	<b>Respond Within</b>
Santa Cruz County Board of Supervisors	1, 2, 3	1, 2, 4	60 Days August 30, 2005
Santa Cruz County Auditor-Controller	3	1, 2, 3, 4	90 Days September 30, 2005
Santa Cruz County Audit Committee	3, 7	2, 4	90 Days September 30, 2005

## Proposal Evaluation Method

Following is the method of evaluating proposals. The evaluation formula and the values assigned to the criteria given are for illustration only.

- A. Total scores will be determined by adding the points received for technical qualifications (maximum of 75 points) plus the points received for the cost of the audit (maximum of 25 points). The total score will be determined by the following formula:

$$\frac{\text{Technical score for this firm}}{\text{Highest Technical Score Received}} \times 75 = \text{Technical Score}$$

Plus

$$\frac{\text{Lowest cost of all bids}}{\text{Cost of bid for this firm}} \times 25 = \text{Cost Score}$$

In the event that oral interviews are necessary, additional points will be given on a scale of 0-10. While the total score will be a significant factor, the County reserves the right to make a final selection.

- B. The evaluation of technical qualifications will be based on the following criteria:

<u>Criteria</u>	<u>Point Range</u>
1. Prior financial auditing experience.	(0-25)
a. Auditing (the type of audit under consideration)	0-15
b. Auditing local governments	0- 5
c. Auditing similar entities	0- 5
2. Organization size and structure of firm.	(0- 5)
3. Qualifications of staff, including consultants, to be assigned to audit. Education, position in the firm, and years and types of experience will be considered. This will be determined from resumes submitted.	(0-25)
a. Qualification and audit team makeup	0-20
b. Overall supervision to be exercised over audit team by firm's management	0- 5
4. Firm's understanding of work to be performed. This will be determined by the approach to the audit and the time estimated to perform each section.	(0-20)
a. Audit coverage	0-15
b. Realistic time estimates of each program section	0- 5
	<u>Technical points 1-4</u>
	<u>0-75</u>
5. Cost.	(0-25)
	<u>Maximum points</u>
	<u>100</u>