First 5 San Mateo County – Auditor Procurement

A. CPA audit firm selection criteria:

1. CPA firm with expertise and specialization in government audit and in GASB68 audit reporting
2. Multiple, critical deadlines are to be met for compliance requirement and continuing funding.
3. Efficiency of the auditor/CPA firm is necessary for an audit completion within 3-week (from the audit field work to audit report issuance).
4. Competitive quote

Experiences of GASB68 audit reporting may be the most important criteria

- GASB68 implementation is on the second year (FY14-15 and FY15-16)
- There was an error in F5SMC' FY15-16 net pension liability and the expense, which was overstated by $55,000 in the audit report **due to an error in calculating the net pension liability by the County.**

F5SMC will have an audit adjustment for the correction of last year audit report error in the FY16-17 audit.

B. Multiple, critical deadlines of year- end close, financial audit, and reporting compliances

- 8/1: Grantees' final invoices are due to F5SMC
- 8/20: F5SMC year—end close completion
- 9/1: Audit field work begins
- 9/10: Audit Report draft
- 9/15: Auditor F5SMC Audit Report issuance
- 9/15: F5SMC audit report due to San Mateo County Controller Office
- 10/10: F5SMC audit report presented to F5SMC Finance Committee
- 10/25: F5SMC audit report to be reviewed and approved at a public hearing (Commission Meeting)
- 11/1: F5SMC audit report due to the State and First 5 California for continuing funding.

C. Other F5 Commissions 'Auditors

Staff conducts a research and analysis of other F5 Commissions' auditors. Those First 5 Commissions

(1) have similar revenue sizes (for audit fee comparison)
(2) are the same legal structure as a stand-alone department of a larger county likes F5SMC, and
(3) Administer a defined benefit retirement plan (similar to the ones of County of San Mateo), therefore its auditor should be familiar and or experiences in government audit and GASB68 audit reporting.

D. FY2016-17 auditor procurement

Based on the survey of other F5 Commissions' auditors, we have identified and sent RFQ to 4 selected auditors:

- Vocker Kristofferson and Co. CPAs (CPA firm submitted audit proposal last year)
- Ricciardi J. Ralph CPA, F5SMC current auditor for 4 years
- Macias Gini and O' Connell, LLP, F5 San Francisco auditor; also is County of San Mateo auditor
- Vavrinek, Trine, Day & Co, F5 Sacramento auditor.

May 10, 2017 is the due date for the audit services proposal submission.

E. **Mandatory Audit Firm rotation is not required by Government Accountability Organization** (GAO), as per GAO survey conducted in 2013.

Abstract: *GAO surveyed hundreds of parties from both management of companies as well as auditors. Although their research was limited to audits of publicly-traded companies, the GAO ultimately did not provide a recommendation on mandatory auditor rotation. However the general conclusion from the respondents was that mandatory auditor rotation would increase the costs of audits while having little, if any, effect on audit quality (retrieved on May 3, 2017* **http://npoaccounting.blogspot.com/2013/01/mandatory-auditor-rotation-is-change.html**)

Attached is a blog written by *Corey Arvizu, a current member of the American Institute of Certified Public Accountants (AICPA).*

22nd January 2013

Mandatory Auditor Rotation - Is a Change Really Necessary?

By Corey Arvizu, CPA, Managing Partner

The idea of mandatory auditor rotation has been receiving a lot of attention in the past year. Many articles have been written on the topic, standard setters are debating the issue, and of course key stakeholders are weighing in on the matter, including auditors themselves. Much of the discussion centers on the belief that after a period of time auditors lose their objectivity and therefore may overlook internal control matters or financial statement misstatements that a new auditor would be able to identify.

The concept of auditor rotation is not entirely new. The issue received a great deal of attention during the development of the Sarbanes-Oxley Act in 2002. Some involved with the reform believed mandatory auditor rotation was necessary to ensure objectivity, while others believed the costs would significantly outweigh the benefits.

In response, Congress requested that the Government Accountability Office (GAO) research the matter. While conducting the research, GAO surveyed hundreds of parties from both management of companies as well as auditors. Although their research was limited to audits of publicly-traded companies, the GAO ultimately did not provide a recommendation on mandatory auditor rotation. However the general conclusion from the respondents was that mandatory auditor rotation would increase the costs of audits while having little, if any, effect on audit quality.

Ten years later the issue is once again receiving attention due to the Public Company Accounting Oversight Board's (PCAOB) concept paper (http://pcaobus.org/Rules/Rulemaking/Docket037/Release_2011-006.pdf) on mandatory audit firm rotation. Although once again the discussion is limited to that of publicly-traded companies, the "trickle down" effect is impacting audits of all types of organizations, including governments and nonprofit organizations. Many organizations are now evaluating the term of their auditors and considering a change in auditors for a "fresh look" at their operations.

Clearly the objectivity and independence of the auditor is critical to ensuring a quality audit and protecting the interests of the users of the financial statements; however simply changing auditors may not achieve this purpose.

The following are some items that should be considered:

- Auditors have a number of standards which require them to evaluate and assess independence and objectivity for every audit performed. This process is also "audited" every three years during the audit firm's peer review.
- All auditors are required to perform and document their audit in accordance with audit standards. Although professional judgment is used during an audit, every auditor must meet the requirements of the profession, regardless if it is the first year performing the audit or the 20th year performing the audit.
- As noted above, there has been no evidence to date that auditor rotation would improve auditor objectivity or enhance audit quality. In addition, there is no evidence that audit failures of the past had any relationship with auditor tenure.
- Currently no standard setter or regulatory body requires auditor rotation. This includes the Sarbanes-Oxley Act, the Single Audit Act, IRS regulations, and Government Auditing Standards. The Arizona legislature recently approved a bill to repeal a statute that was going to require Arizona charter schools to rotate auditors every six years.
- The procurement process is an excellent method for organizations to address any concerns regarding auditor objectivity. As a matter of practice, any organization should periodically bid audit services as it provides the ideal opportunity to evaluate auditor performance and objectivity. Many governments and nonprofits have procurement practices which require such periodic procurement of services.

- Have your auditors meet directly with your governing board and/or audit committee. Although auditors work closely with management, they ultimately work for the governing board. Providing the auditors opportunities to meet with the board not only allows the auditors to communicate audit matters directly with them but it also provides opportunities for the board to ask the auditors tough questions regarding objectivity, the audit process, and the responsibilities of all parties.

- Lastly, should there be an interest in obtaining a different perspective during the audit many firms can provide a different engagement team to perform the audit. Changing the engagement team would ultimately achieve the same result of getting a "fresh look" while retaining the audit firm's expertise, industry knowledge, and service level.

Mandatory auditor rotation is a challenging issue due to the limited amount of measurable research and the false perceptions of what auditors are required to do when performing an audit. Assessment of this issue can also be clouded by other variables affecting audit quality which having nothing to do with auditor tenure.

While there may be other perspectives on this issue not presented here, all parties, including the audit profession, agree that auditor objectivity is paramount to protecting the public interest and maintaining the high level of credibility of the audit profession. To ensure achievement of this key principle it is important that your organizations decision makers are fully informed on the matter, any audit service concerns are discussed with the auditors, and that the quality, service level, and expertise of your auditors are held to the highest standard.

Corey Arvizu is a current member of the American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee and past Chair of the AICPA's Governmental Audit Quality Center (2008-2011). He is also a frequent speaker on auditing issues for organizations such as the AICPA, GFOAz, AASBO, and state societies.

Posted 22nd January 2013 by Heinfeld, Meech and Co., P.C.

Labels: accounting, arizona, auditing, auditor rotation, CPA, CPA firm, mandatory auditor rotation, New Mexico, non-profit audit, non-profit auditor, nonprofit not-for-profit