



January 23, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department

Subject: Selection of Consultant to Conduct Independent Annual Financial Auditing Services

Overview

On September 24, 2018, the Board of Directors authorized the release of a request for proposals for an independent public accounting firm to perform annual financial and compliance audits and agreed-upon procedures reviews of the Orange County Transportation Authority and related agencies for the fiscal years ending June 30, 2019, 2020, and 2021. Proposals were received and evaluated in accordance with the Orange County Transportation Authority's procurement procedures for professional and technical services. Board of Directors' approval is requested to select an independent public accounting firm to perform independent annual financial auditing services.

Recommendations

- A. Approve the selection of Crowe, LLP, as the firm to provide independent annual financial auditing services.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-8-1911 between the Orange County Transportation Authority and Crowe, LLP, in the amount of \$888,300, to provide independent annual financial auditing services for an initial three-year term through March 31, 2022, and one, two-year option term.

Discussion

The Orange County Transportation Authority (OCTA) requires an independent public accounting firm to perform annual financial and compliance audits and agreed-upon procedures reviews of OCTA and its affiliated agencies for an

initial term of three consecutive years, beginning with audits for the fiscal year ending June 30, 2019. Following the initial three-year term, there will be one, two-year option term for the fiscal years ending June 30, 2022 and 2023. The firm will also perform the annual fiscal and compliance examinations and certifications required by the Single Audit Act of 1984 as amended, and the National Transit Database Reporting.

Procurement Approach

This procurement was handled in accordance with OCTA's Board of Directors (Board)–approved procedures for professional and technical services. In addition to cost, many other factors are considered in an award for professional and technical services. Award is recommended to firms offering the most comprehensive overall proposal considering such factors as prior experience performing similar projects, staffing and project organization, work plan, as well as cost and price.

On September 24, 2018, the Board authorized release of Request for Proposals (RFP) 8-1911, which was issued electronically on CAMM NET. The project was advertised in a newspaper of general circulation on September 24 and October 1, 2018. One addendum was issued to provide responses to questions received.

On October 31, 2018, ten proposals were received. An evaluation committee comprised of OCTA staff from the Contracts Administration and Materials Management, Internal Audit, and Accounting and Financial Reporting departments, as well as external representatives from the Los Angeles-San Diego-San Luis Obispo Corridor Rail Agency (LOSSAN) and the Audit Subcommittee of the Measure M Taxpayers Oversight Committee was established to review all proposals received. The proposals were evaluated based on the following Board-approved evaluation criteria and weights:

- | | |
|-------------------------------------|------------|
| • Qualifications of the Firm | 25 percent |
| • Staffing and Project Organization | 30 percent |
| • Work Plan | 20 percent |
| • Cost and Price | 25 percent |

Several factors are considered in establishing criteria weights. An independent audit firm must have substantial depth and breadth of technical expertise in a variety of accounting and auditing matters, and must demonstrate its compliance with Government Auditing Standards (GAS). As such, firm

qualification was weighted at 25 percent. The training and experience of the firm's staff and the organization of its team is critical to the professional and timely completion of the annual audit work. Also, continuity and retention of staff is crucial for a productive and efficient work environment. Therefore, staffing and project organization was weighted the highest at 30 percent. The work plan, or annual audit plan, is important because it is the approach the firm will use to examine OCTA's internal controls, its compliance, and its financial records. However, these procedures are largely based on accounting and auditing standards, and the agreed-upon procedures are provided by OCTA. As such, the work plan was weighted at 20 percent. Cost and price was weighted at 25 percent to ensure OCTA received competitive pricing for services provided.

On November 13, 2018, the evaluation committee reviewed the ten proposals based on the evaluation criteria and short-listed the three most qualified firms listed below in alphabetical order:

Firm and Location

Crowe, LLP (Crowe)
Costa Mesa, California

Macias, Gini & O'Connell, LLP (MGO)
Newport Beach, California

Vavrinek, Trine, Day & Company, LLP (VTD)
Laguna Hills, California

On November 20, 2018, the evaluation committee completed interviews with the three short-listed firms. The interview consisted of a presentation to demonstrate the firm's understanding of OCTA's requirements. The firms' engagement partner(s) and key team members had an opportunity to present their qualifications and respond to evaluation committee's questions. Questions were asked relative to the firms' approach for providing guidance and technical assistance, ensuring staff retention and continuity on assignments, and communicating with OCTA staff about potential findings and recommendations. In addition, each team was asked specific clarification questions related to their proposal.

After considering the responses to the questions asked during the interviews, the evaluation committee reviewed the preliminary ranking and made adjustments to individual scores. Following the interviews, the ranking of the firms changed; however, the top-ranking firm remained the same.

Based on evaluation of the written proposals and the information obtained from the interviews, the evaluation committee recommends Crowe for consideration of the award. The following is a brief summary of the proposal evaluation results.

Qualifications of the Firm

The three short-listed firms demonstrated experience providing independent annual financial auditing services.

Founded in 1942, Crowe has six offices throughout California and over 4,000 total employees nationwide. The firm has experience auditing government agencies, including the Los Angeles County Metropolitan Transportation Authority, Foothill Transit, San Bernardino County Transportation Authority, and San Diego Association of Governments. In addition to financial audit services, Crowe demonstrated experience in conducting single audits, Transportation Development Act compliance audits, and applying agreed-upon procedures related to sales tax measures. The firm participated in and passed the quality control review program of the American Institute of Certified Public Accountants (AICPA), in which a peer accounting firm reviews workpapers and quality control procedures for compliance with Government Accounting Standards.

Founded in 1987, MGO has ten offices throughout California and approximately 300 total employees. The firm has experience auditing government agencies, including the California Public Employees Retirement System, the City of Irvine, and the United States Department of Transportation. In addition to financial audit services, MGO demonstrated experience in conducting single audits, Transportation Development Act compliance audits, and applying agreed-upon procedures related to sales tax measures. MGO has also participated in and passed the quality control review program of the AICPA.

Founded in 1948, VTD has 11 offices throughout California and over 300 total employees. The firm has experience auditing government agencies, including the Peninsula Corridor Joint Powers Board, the Santa Clara Valley Transportation Authority, LOSSAN, and OCTA. In addition to financial audit services, VTD demonstrated experience in conducting single audits, Transportation Development Act compliance audits, and applying agreed-upon procedures related to sales tax measures. VTD has also participated in and passed the quality control review program of the AICPA.

Staffing and Project Organization

All three short-listed firms proposed experienced audit teams and a project organization structure that includes oversight of staff and senior auditors by managers and partners on the engagement.

Crowe is proposing a 16-person team with key personnel that have experience with GAS attestation standards issued by the AICPA and Federal Acquisition Regulations (FAR). The proposed lead engagement partner has 19 years of auditing experience and has been with the firm for two years. The proposed concurring review partner has 28 years of auditing experience and has been with the firm for 28 years. During the interview, the firm's team provided responses to the evaluation committee's questions related to ensuring staff recruitment, retention, and continuity on assignments.

MGO is proposing a 12-person team with key personnel that have experience with GAS attestation standards issued by the AICPA and FAR. The proposed lead engagement partner has 23 years of auditing experience and has been with the firm for eight years. The proposed concurring review partner has 25 years of auditing experience and has been with the firm for 25 years. During the interview, MGO's team provided responses to the evaluation committee's questions related to ensuring staff recruitment, retention, and continuity on assignments.

VTD is proposing a 15-person team with key personnel that have experience with GAS attestation standards issued by the AICPA and FAR. The firm proposed changing the lead engagement partner after the first year's audit to comply with Government Code 12410.6, which states that a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years. The proposed lead engagement partner for the first year's audit has 20 years of auditing experience and has been with the firm for 17 years. The proposed lead engagement partner after the first year's audit has 17 years of auditing experience and has been with the firm for 15 years. The proposed concurring review partner has 19 years of auditing experience and has been with the firm for 19 years. During the interview, the firm's team provided responses to the evaluation committee's questions related to ensuring staff recruitment, retention, and continuity on assignments.

Work Plan

The work plans proposed by the three short-listed firms provided an approach to performing the various audits and demonstrated an understanding of the requirements and deliverables included in the scope of work.

Crowe's work plan addressed quality control reviews to ensure accuracy of results, planned 2,872 hours for completing the audits, and included a timeline for delivering final reports. In addition, the firm's work plan included a transition plan and the use of a web-based project management solution for facilitating communication. During the interview, Crowe provided responses on the firm's approach for providing guidance and technical assistance, as well as communicating with staff about potential findings and recommendations.

MGO's work plan addressed quality control reviews to ensure accuracy of results, planned 3,160 hours for completing the audits, and included a timeline for delivering final reports. During the interview, MGO provided responses on the firm's approach for providing guidance and technical assistance, as well as communicating with staff about potential findings and recommendations.

VTD's work plan addressed quality control reviews to ensure accuracy of results, planned 2,820 hours for completing the audits, and included a timeline for delivering final reports. During the interview, VTD provided responses on the firm's approach for providing guidance and technical assistance, as well as communicating with staff about potential findings and recommendations.

Cost and Price

Each firm was asked to submit firm-fixed prices for each of the audit deliverables for OCTA. Pricing scores were based on a formula that assigned the highest score to the lowest proposed total price and weighted the other proposals based on their relation to the lowest proposed total price. Crowe submitted the lowest proposed total price among the three short-listed firms.

Procurement Summary

Based on the evaluation of the written proposals, the firms' qualifications, as well as the information obtained from the interviews, the evaluation committee recommends the selection of Crowe as the top-ranked firm to provide independent annual financial auditing services. Crowe delivered a proposal and interview that was responsive to all the requirements of the RFP.

Fiscal Impact

Funding for these services was approved as part of OCTA's Internal Audit Department Fiscal Year 2018-19 Budget, Account 1610-7512-A0001-N10, Measure M2 Account 0017-7512-M0201-N10, and 91 Express Lanes Account 0036-7512-B0001-N10.

Summary

Staff recommends the Board authorize the Chief Executive Officer to negotiate and execute Agreement No. C-8-1911 between OCTA and Crowe, to provide independent annual financial auditing services in the amount of \$888,300 for an initial three-year term through March 31, 2022, and one, two-year option term.

Attachments

- A. Review of Proposals – RFP 8-1911 Independent Annual Financial Auditing Services
- B. Proposal Evaluation Criteria Matrix (Short-Listed Firms) – RFP 8-1911 Independent Annual Financial Auditing Services
- C. Contract History for the Past Two Years – RFP 8-1911 Independent Annual Financial Auditing Services

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