

Memorandum



September 21, 2010

Date:

To: Honorable Chairman Dennis C. Moss
and Members, Board of County Commissioners

Supplement #2 to
Agenda Item No. 801B

From: George M. Burgess
County Manager

Subject: Supplement to Recommendation for Approval to Modify Contract Nos. RFP477a-d:
External Independent Auditing Services

The recommendation to modify the External Independent Auditing Services contracts with KPMG, LLP; MarcumRachlin, a division of Marcum, LLP; and TCBA Watson Rice, LLP for contract extensions was presented at the July 13, 2010 Budget, Planning and Sustainability Committee and at the September 10, 2010 Board of County Commissioners meeting. Prior to the Board meeting, staff offered a briefing on the item to each Commissioner. During and after the briefings, several questions were raised regarding the timeline for hiring the auditors to begin work. Additionally, questions were raised regarding the reasons for the recommendation to reject proposals received in response to Request for Proposals (RFP) No. 726, for the successor contracts. This supplement addresses those inquiries.

1. Importance of Auditors Beginning Work Immediately

The contracts have milestone dates set by the Finance Department to ensure timely audits. The dates were set based on professional experience and institutional knowledge with the goal of completing the audits accurately and on time. Past audits have traditionally started in July and still entailed significant time pressures to meet the required deadlines. Miami-Dade County is the largest county in the Southeastern United States and the ninth-largest in the nation by population. The County reported revenues in FY 2008-09 of \$7 billion, and total assets of \$22 billion. This includes revenues of \$3.1 billion and \$15.1 billion of assets from enterprise funds. The County has approximately 64 funds, each with unique and complicated accounting transactions including complex bond, loan and lease transactions, a self-insurance fund, compensated absences and post-employment benefit liabilities for 41,000 employees, including the Public Health Trust. The County received funding from federal and state agencies for more than 380 grants totaling more than \$388 million. For FY 2008-09, the General Segment audit alone required approximately 10,000 hours to complete, with a staff of 10 external auditors and three audit managers. Internally, the Finance Department's Controller's Division worked more 4,000 extra (non-regular) hours with a staff of approximately 40 from August 2009 through April 2010 to close the general ledger, prepare schedules for the auditors, prepare financial statements and respond to auditor requests, and final issuance of the County's comprehensive annual financial report (CAFR).

The external auditors must complete all audit preparation and fieldwork by December 31st. This takes several months to complete, and includes:

Preparation

- Meeting with many levels of County staff
- Reviewing the prior auditors' financial working papers
- Becoming familiar with County administrative processes
- Preparing a detailed audit plan

Fieldwork

- Evaluating and testing information technology systems and controls for more than 40 financial applications, including payroll, two general ledgers, tax collector, transit toll collection, water and sewer revenue collection and property appraiser
- Documenting and testing all internal controls
- Observing the physical inventory counts performed at the end of the fiscal year (Note: The County's Audit and Management Services Department has begun this portion of the work as inventory counts have started in some departments.)
- Checking for audit risks such as conflicts of interest or overstated figures
- Sending audit confirmations to banks, bond paying agents, and mortgagees to confirm investments, account balances, outstanding bond balances and receivables balances, including mortgage loans. Time must be provided to receive return confirmations from these institutions and resolve any discrepancies.
- Sampling of revenue and expenditure transactions
- Verifying the evaluation, additions and retirements of fixed assets and the accumulated depreciation balances
- Obtaining evidence of commitments and contingencies (i.e., potential liabilities, pending claims, assessments, etc.)
- Testing of account balances
- Conducting single audit testing and compliance
- Auditing grants for program compliance

After completion of the fieldwork, the auditors are required to examine the financial statements and verify the information in their work papers ties to the financial statements. The audited financial reports are due from the auditors to the County's Finance Department by January 31st. Thereafter, the County incorporates all financial statements into the CAFR, which is required pursuant to Section 10.557, Rules of the State of Florida Auditor General.

Issuing the CAFR by March 31st is required for consideration by the Government Finance Officers' Association (GFOA) for the Certificate of Achievement for Excellence in Financial Reporting. The GFOA is a nationally recognized organization that reviews governmental CAFRs and recognizes those reports that meet the highest quality financial reporting in the public sector. **This certification provides additional assurances to organizations such as banking institutions and bond rating agencies that use the financial statements to make determinations on the fiscal stability of the County, including an assessment of the financial health in assigning bond ratings, that the County complies with governmental accounting standards.** As the Board is aware, it is essential that the County do everything necessary to maintain good credit ratings as it directly impacts the County's interest rate on its debt. Additionally, several grant agreements require issuance of the County's financial statements within 180 days from close of the fiscal year (by March 31st).

2. Rejection of Proposals on Request for Proposals (RFP) No. 726

A recommendation to reject proposals for the successor contracts (RFP No. 726) has been filed with the Clerk of the Board. The recommendation is being placed on the October Budget Planning and Sustainability Committee agenda.

From the outset, this was a challenging solicitation. It was initially advertised on April 19, 2010, with a compressed timeline that aimed to award contracts in August and adhere to the timeline discussed above. Proposals were due after two weeks, and the evaluation and selection committee completed its review two weeks after that.

We received 21 proposals, but four of them were found non-compliant with small-business enterprise measures by the Department of Small Business Development and one other was deemed non-responsive by the County Attorney's Office.

During the negotiation phase, multiple issues were encountered with the highest-ranked firms, leading me not to offer any award recommendations at this time. There were irreconcilable differences over the County's dispute resolution requirements, past performance issues, use of the same key personnel on multiple large segment audits, and capacity to perform the required services. After careful review of these issues, I cannot responsibly recommend that the Board award these critical contracts to the two firms that were the highest-ranked respondents on four of the five segments.

The solicitation process allows the County to consider negotiating with the next highest ranked proposer if the County and highest-ranked proposer cannot reach agreement, but the challenging time constraints of these audits make it unrealistic to review, negotiate and award contracts with other proposers in time for the next audit cycle.

This recommendation to extend the existing contracts will allow a new and improved solicitation for the long-term successor contracts, allowing both the County and the proposers to benefit from a new RFP that will reflect lessons learned during this process. The alternative is to ignore those lessons, or else apply them after the fact to proposals already submitted – neither of those are good procurement or management practices.

The new solicitation and timeline will allow proposers a longer period for proposal submission, and for questions and answers. The solicitation will require proposers to offer dedicated key personnel committed to each segment as well as providing enhanced clarity regarding dispute resolution. Rejecting the proposals, then, is the best solution for the County government, the residents we serve and the companies that seek to do business with us.

3. What happens if the modification for extension is not approved?

If the one-year extensions to the various segment audits are not approved, the County runs the risk of not being able to meet its reporting deadlines. Failure to comply with this deadline could jeopardize current and future grant funding; raise perilous questions with banking institutions, rating agencies, investors and the public; and damage the credibility of the County's financial reporting. This is simply not a time when speed should trump quality.

Attempting to salvage the existing solicitation would require time-consuming due diligence reviews and negotiations with lower-ranked firms. There, too, is a high risk of not meeting the deadlines mandated for the audits after the negotiations and diligence reviews. At this point, we cannot afford allowing any additional time for added reviews for the fiscal year 2010 audits, especially considering such negotiations would not cure the weaknesses we discovered during the process.

The best interest of the County will be served by extending the current contracts for one more audit cycle.



Assistant County Manager