

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 6, 2007

IBA Report Number: 07-83

Audit Committee Docket Date: September 10, 2007

Item Number: 3

Subject: Professional Audit Consultant Recommendation to the Audit Committee

OVERVIEW

On May 14, 2007, the Audit Committee recommended that the City Council budget and authorize the expenditure of not more than \$225,000 in Fiscal Year 2008 to hire a professional audit consultant/firm. The professional audit consultant would assist the Audit Committee, and the City Council, to provide independent, legislative oversight of the audit work performed by and for the City. The contemplated scope of work and desired professional qualifications/experience for a professional audit consultant is provided within IBA Report # 07-49.

In approving the City's Fiscal Year 2008 budget, the City Council approved the recommendation to allocate \$225,000 for professional audit consultant services. Following the appropriation of funds for this purpose, the IBA has worked with the Purchasing and Contracting Department to issue a Request for Proposals (RFP) and facilitate a recommendation process for a professional audit consultant. This report summarizes the process undertaken and makes a recommendation to select the firm of Jefferson Wells.

FISCAL/POLICY DISCUSSION

The City issued an RFP for a professional audit consultant on July 12, 2007. Key components of this RFP are provided in Attachment 1 to this report. In addition to placing an ad in the San Diego Daily Transcript, the RFP was mailed to approximately 40 of the largest accounting firms in the City, posted on the website of the Association of Local Government Auditors, and e-mailed to referred consultants, professional audit associations and the accounting departments at SDSU and USC.

Responses to the RFP were originally requested by August 6, 2007 and subsequently extended to a final deadline of August 20, 2007. A Technical Evaluation Committee (TEC) was formed to evaluate proposals, interview firms and develop a recommendation. Rod LeMond of RSM McGladrey, a subconsultant specializing in auditing matters for the City's Independent SEC Consultant Stanley Keller, served as a technical advisor to the TEC. The TEC for the professional audit consultant RFP was comprised of the following members:

- Kevin Faulconer, Councilmember and Audit Committee Chair
- Jay Goldstone, Chief Financial Officer
- Larry Tomanek, Deputy Director – Office of the City Attorney
- Andrea Tevlin, Independent Budget Analyst (TEC Chair)

The City received two proposals in response to the RFP. After completing a technical review of the two proposals, the TEC determined that the Jefferson Wells proposal was responsive to the City's RFP and superior to the other proposal, which was evaluated to be marginal. With the concurrence of the assigned Principal Procurement Specialist, the TEC proceeded to interview Jefferson Wells on August 28, 2007. At the conclusion of the interview, the TEC noted the following strengths associated with the Jefferson Wells proposal:

- Jefferson Wells is an international professional services firm with extensive experience providing auditing, financial management, information technology, and management consulting services to local, state and federal government agencies.
- Responding to the City's preference for a local office presence, the firm proposes to serve the City from its San Diego office.
- Jefferson Wells proposes to assign Bob Miranda, a Director and leader of the San Diego practice, as the lead, day-to-day contact for this engagement. Mr. Miranda is a CPA with over 30 years of experience in accounting, auditing, finance operations, and management consulting. Assisting Mr. Miranda as needed will be James Santer. James is a Certified Internal Auditor, Certified Information Systems Auditor, and holds various certifications relative to Control Self Assessment. He has over 25 years of experience in internal audit management, consulting and information systems auditing. Together, this team possesses all of the degrees and professional certifications requested in the RFP. Additionally, this team has pledged to devote as much of 50% of each work week to the City, if necessary, and expressed the ability to bring in additional staff and expertise from within the Jefferson Wells network.

- Jefferson Wells is one of leading consulting firms in the United States providing Sarbanes-Oxley (SOX) compliance services and internal controls advisory services. This specialty and experience would be very useful to the Audit Committee and the City Council in fulfilling their legislative oversight responsibilities.
- The Jefferson Wells proposal was very thorough, convincingly addressing each of the paragraphs within the Core Requirements and Desired Professional Qualifications/Experience sections of the RFP.
- Jefferson Wells indicated that they had read and were familiar with the SEC's Cease-And-Desist Order dated November 14, 2006, the Kroll Report and the City's Second Annual Report on Internal Controls. This conveyed to the TEC that Jefferson Wells had done their homework, was familiar with many of the City's audit-related challenges, and was prepared to assist the Audit Committee and the City Council as needed to improve the City's audit organization.

Each of the three references provided by Jefferson Wells was checked and the feedback ranged from generally positive to excellent. The price proposal submitted by Jefferson Wells specifies a fully-burdened hourly rate of \$250 for Bob Miranda and \$175 for James Santer in Fiscal Year 2008, which is lower hourly rate than the competing bid. Additionally, Jefferson Wells has committed that their fully burdened hourly rate for any other specialized personnel, that may be required of Jefferson Wells to meet the unique or unanticipated needs of the City, will not exceed \$250/hour.

CONCLUSION

The TEC has judged the firm of Jefferson Wells to be both interested and capable of assisting the Audit Committee and City Council with the scope of work provided in the RFP. Based on the evaluation process described above, the TEC unanimously recommends that the City proceed to engage the firm of Jefferson Wells to serve as Professional Audit Consultant to the Audit Committee and the City Council.

The IBA has supported the Audit Committee's desire to retain a professional audit consultant to assist the Committee in its independent, legislative oversight of the audit work performed by and for the City. The Audit Committee and the City Council should benefit from the availability of independent governmental auditing expertise and advice. If the Audit Committee and the City Council concur with the recommendation of the

TEC, the IBA is prepared to work with the Purchasing and Contracting Department to execute a professional audit consultant contract with Jefferson Wells with a goal of having their consultants available for the next meeting of the Audit Committee.

[SIGNED]

Jeff Kavar
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment