



FINANCIAL & ADMINISTRATIVE SERVICES

February 20, 2017

TO: Audit Committee
Jim Westmoreland, City Manager
Chris Wilson, Assistant City Manager

FROM: Rick Lusk, Finance Director

SUBJECT: Independent Auditor Withdrawal

We have been verbally notified by RSM US LLP (formerly McGladrey LLP) that they will officially withdraw as the City's independent auditor at next week's Audit Committee meeting after having served two years of the initial three-year engagement term (the engagement also included two potential one-year extensions) due to staffing resource challenges. The City must now contract with a new auditor for FY16-17 and time is of the essence. We believe that this notice is too late for us to effectively rebid this legally required professional service and that to do so would result in the audit not being performed in a timely manner. Normally, audit planning begins in March and preliminary fieldwork starts in April as it is essential to issuing bonds that our CAFR is available online shortly after the October 31 filing deadline with the Local Government Commission.

Potential Auditor Selection

The field of governmental auditors is narrower than the entire pool of certified public accountants due to additional required staff training and other investment required to be made by the firm, per auditing standards, in order to perform an audit of a governmental unit.

Currently, only 3 North Carolina audit firms (following the departure of RSM) perform governmental audits of the same size and scope as Greensboro's accounts and transactions:

- Dixon Hughes Goodman (DHG), located in High Point, audits Winston-Salem and several small towns and cities. DHG did not submit a proposal when Greensboro solicited bids in 2015.
- Elliot Davis Decosimo, located in Raleigh, was a new audit firm to North Carolina in 2014. They have a presence in South Carolina and the only large NC client is Wake County for the past 4 years. Other small NC cities/counties may be in their client mix since they proposed on the Greensboro audit in 2015, but none other than Wake was noted then.
- Cherry Bekaert, (CB) located in Raleigh, audits 7 of the large cities and counties in NC and has done so consistently for 7 or more large units for 10+ years. CB was Greensboro's auditor for 20 years, ending in 2014.

CB's proposal in 2015 ranked "second" highest behind RSM, according to the Audit Selection Committee results. Elliot Davis Decosimo ranked "third".

Auditors typically have large startup costs in the initial year of a new audit, which are recouped over the normal contract period of 3 years and 2 annual extensions. We would expect a fee “premium” and the City would be in a lesser negotiating position if we solicited a contract for just FY 2017. In addition, some of the above firms may not submit a proposal for only 1 year due to the initial costs sustained, including obtaining portions of the working papers from RSM, as part of the required transition.

Greensboro has a good indication of a competitive fee charged for audits by regularly polling the other 9 large cities/counties in the state. See attached 5-year comparative fees and auditor selection of our peers.

In 2015, RSM and CB were the only 2 firms of the 3 finalists that included minority firm participation in their audit proposals.

We contacted CB, our prior auditor, based on their knowledge of the City’s financial operations, their ranking in the 2015 bid, and their MWBE subcontracting, to determine their interest and availability for the City’s audit.

Recommendation

Based on CB’s interest and availability, and the subcontracting with MWBE audit firms by both CB and RSM, we have an opportunity to contract with CB and increase the overall MWBE audit firm participation from the 9% - 13% range to a range of 20% - 25%. Previously, CB and RSM subcontracted with different MWBE firms with expertise in different areas (CB with Claude M. Bogues, CPA, PLLC and RSM with Thomas & Gibbs, CPAs, PLLC). We propose a three-year term with two 1-year extensions, with CB and both MWBE firms that have experience with the City, with one responsible for performing grant compliance work and the other responsible for the audits of the Greensboro Center City Corporation (GCCC), the Local Government Excess Liability Fund (ELF) and the Local Government Property Deductible Fund (PID), of which the City is a member and manages the audits, as Treasurer on the respective Boards.

The proposed audit fee in FY 16-17 would be \$76,500 for the City’s general governmental audit with Cherry Bekaert LLP (MWBE participation of 9% - 13% with Claude M. Bogues, CPA, PLLC) and \$9,700 for audit services for entities related to the City (GCCC, ELF and PID) with Thomas & Gibbs, CPAs, PLLC (MWBE participation of 11% – 12%).

Other Audit Work

The City was also notified this week by the State Treasurer that the State Auditor is requiring additional audit work be performed related to cities and counties participation in the NC Local Government Employees Retirement System. We also propose that CB perform this work since they are performing the city’s financial statement audit and it would be more efficient and cost effective to have them perform this additional work, estimated to cost in the range of \$2,500 to \$3,000. This work will be performed under a separate contract.