



METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Administration Committee

DATE: June 6, 2018

FR: Deputy Executive Director, Policy

WI: 1233

RE: Mandatory Audit Firm Rotation Policy

In February 2018, the Administration Committee approved the staff recommendation to award a contract to PricewaterhouseCoopers, LLP (PwC) to continue as the external financial auditors for MTC. The approval included a request to re-examine the previously held Commission policy that prohibited the incumbent audit firm from participating in the new solicitation once its contract has expired.

Staff research in response to this request indicated that some agencies require audit partner rotation while other agencies mandate rotation of the audit firm. Current “Best Practices” include:

- AB 1345 requires rotation of lead audit partners every six years
- Government Finance Officers Association “Best Practices” recommend long-term (5-year) contracts but do not recommend mandatory firm rotation

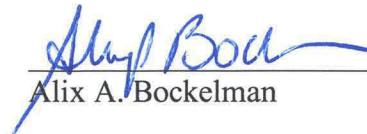
In addition the Securities Exchange Commission (SEC) requires rotation of “Lead” and “Concurring” partners every five years for public company financial audits. Staff has conducted a survey of local finance and audit departments and the results of our survey are included in Attachment B. In the attached survey you will note several agencies have long term relationships while others mandate rotation every five years.

As a result of the discussion during the February Committee meeting and in light of the research done into the rotation issue, staff has developed a proposed Independent Auditor Selection Policy (Attachment A). Among other things, the proposed policy prohibits the incumbent auditing firm from bidding for the MTC annual financial audit services contract for two years after the signature date of the most recently-completed audit.

PwC is currently in the first year of a five year plus two optional years contract approved by the Administration Committee in February, 2018. The option to continue with PwC is presented to the Audit Committee each October in combination with the presentation of the annual financial statements. If the Audit Committee chooses to continue with PwC that recommendation is forwarded to the Administration Committee as part of the annual contract approval process. If this policy is approved, PwC would be prohibited from bidding the next time MTC goes out to bid for its annual financial audit services, the timing of which will be dependent on annual approvals and whether any option years are exercised.

Recommendation:

Staff recommends this Committee approve the proposed Independent Auditor Selection Policy attached hereto as Attachment A.


Alix A. Bockelman

AB:bm

Attachment

Metropolitan Transportation Commission (MTC)

Finance Department

Independent Auditor Selection Policy

POLICY

At the end of an audit contract term, a full-scale competitive process will be held for selection of the independent audit firm. MTC will actively seek the participation of all qualified firms except that the current audit firm is prohibited from submitting a proposal for annual financial audit services for two consecutive years from the signature date of the most recently completed audit.

MTC follows the California Assembly Bill 1345 which added Section 12410.6 (b) to Government Code and requires the audit firm to rotate their lead audit partners every six years.

The principal factor in the selection is the auditor's ability to perform a quality audit. Price is not allowed to serve as the sole criterion for the selection in any case.

PROCEDURES

1. The Request for Proposal process will be utilized in the evaluation of prospective audit firms. The auditor selection project manager follows the MTC's standard procurement procedures to organize and document the process.
2. Members of the MTC Audit Committee and ABAG Finance Committee will be invited to participate in the auditor interview panel.
3. The procurement will list the requirements that the selected firm follows AB 1345 requirements and will acknowledge that the selected firm will be prohibited from bidding for annual financial audit services for two consecutive years from the signature date of the most recently completed audit.
4. At the end of the procurement process, one audit firm will be recommended to the MTC Commissioners for approval.

TERM OF CONTRACT

The initial contract term will be a minimum of five years subject to the annual concurrence of the MTC Audit Committee and the MTC Administrative Committee and the satisfactory negotiation of terms.

Attachment B

Attachment B

Bay Area Counties and Cities	Auditor Rotation Policy?	Follow AB 1345?	Current Auditor	How Long
(1) Santa Clara County	No	Didn't indicate in reply	MGO	since 2001
(2) San Mateo County	No	Yes	MGO	since 2001
(3) City and County of San Francisco	No	Didn't indicate in reply	MGO	since 2004
(4) Alameda County	No	Yes	MGO	since 2010
(5) Contra Costa County	Didn't reply	Didn't reply	MGO	since 2013
(6) Sonoma County	No	Didn't indicate in reply	VTD LLP	since 2013
(7) Solano County	No	Didn't indicate in reply	VTD LLP	since 2015
(8) Marin County	Didn't reply	Didn't reply	CLA LLP	since 2016
(9) Napa County	Didn't reply	Didn't reply	Brown Armstrong	since 2016
(10) City of Oakland	Didn't reply	Didn't reply	MGO	since 2003
(11) City of San Jose	Didn't reply	Didn't reply	Grant Thornton	since 2016
(12) City of Clayton	No	Yes	Cropper	since 2011
(13) City of Redwood City	No	Yes	Badawi & Associates	since 2012
(14) Union City	No	Didn't indicate in reply	Badawi & Associates	since 2012
(15) City of Orinda	No	Yes	Maze & Associates	since 2015

Entities who have an auditor rotation policy	How Often
(1) City of Los Altos	Every 5 years
(2) City of Pleasanton	Every 5 years
(3) Solano County Water District	Every 5 years
(4) City of Coronado	Every 10 years
(5) City of Mission Viejo	Every 8 years
(6) United Water Conservation District	Every 5 years
(7) Mojave Water Agency	Every 5 years