AUDITOR SELECTION PROCESS

Action Requested: Receive a report on issues related to auditor selection for bond audits.

Executive Summary:
At its February 2005 meeting, the Audit and Compliance Committee discussed the audits of bonded enterprises within the Regent enterprise. Each University utilizes a different external auditor for its series of bonded enterprises. The audit of the University of Iowa Hospitals and Clinics is conducted by a fourth audit firm. Although the 26 bonded enterprises were similar among the three universities, the external auditors did not agree on certain financial statement presentations.

During the February Board meeting, members discussed employing only one external auditor to conduct all of the bonded enterprise audits at the three universities, with the possible exception of the specialized UIHC audit. This would encompass the issuance of one combined RFP for the bonded enterprise audits.

In March 2005, the Board authorized a one-year temporary waiver of the policy requirement that mandates the Universities to use a solicitation process at least every five years.

The University Controllers identified issues that need to be considered in developing one RFP for the Regent bond audits, as follows:

- Timeliness of the audit report
  - Bond covenants determine required audit timing.
  - Where there is existing debt, additional issuances and refundings are not permitted until a bond audit is completed for the preceding fiscal year.
  - While the State Auditor’s Office has suggested discontinuing the individual bond audits and relying on the segment information in each university’s annual financial reports, the timing of the release of these audits would preclude the issuance of any Regent bonds for the first six months of each fiscal year.

- Cost of the audit
  - Since Universities are in various locations of the state, the cost will be measured on fee plus travel and any other out-of-pocket costs, not just on the professional fees.

- Bid opportunities
  - An RFP should be flexible enough to provide potential auditors with an opportunity to bid on the bond audits of one University or the whole enterprise. However, there would be no guarantee that the audit reports would be presented uniformly.
  - The Universities do not believe there is a firm in the state of Iowa that is large enough to provide a cost effective bid on Regent-wide audits of all the bonded enterprises and provide them on a timely basis.

- Government experience
  - Bidding audit firms must be able to demonstrate that the partner in charge, the audit managers, and the field auditors have experience in auditing governmental colleges and universities under Governmental Accounting Standards Board (GASB) standards.

- Iowa preference
  - Audit firms with an Iowa tax nexus should be given priority over out-of-state firms.