DATE: December 13, 2006  
TO: The Honorable Mayor Sharpe and Members of City Council  
THROUGH: Jim Sanderson, City Manager  
FROM: Craig A. Larson, Director of Finance  
SUBJECT: Financial Audit Vendor Selection

**ISSUE**

Who should the Village select to provide professional auditing services for the 2006 fiscal year and subsequent years through 2010?

**RECOMMENDATION**

Staff recommends City Council approve Clifton Gunderson LLP to provide professional auditing services for the 2006 fiscal year and subsequent fiscal years through 2010.

**DISCUSSION**

Staff recommended to Council at the September budget retreat that the Village re-bid the 2006 fiscal year and subsequent four year audit services. The recommendation was to accelerate the process by one year. Grant Thornton has been the Village’s audit firm the last four years and was scheduled to conduct the 2006 financial audit. The recommendation to go to bid early was made for two reasons. First, Grant Thornton’s pricing schedule had escalated to a high level. Grant Thornton’s fees for the 2006 audit were $43,000. Second, Grant Thornton recently sold its governmental auditing branch to BKD LLP. Given the change in ownership, and the proposed audit fees, it was my recommendation to re-bid the audit services.

Staff identified and provided requests-for-proposals to 12 audit firms. The audit firms contacted were:

- **Swanhorst and Company**  
  8400 E Crescent Pkwy, Suite 600  
  Greenwood Village, CO 80111

- **Clifton Gunderson LLP**  
  6399 S Fiddlers Green Cir., Suite 100  
  Greenwood Village, CO 80111
Please note that four firms did not submit proposals. These four were: John Cutler and Associates; Yanari Watson McGaughey PC; McGladrey & Pullen LLP; and BKD LLP. BKD indicated that the proposal for 2006, if bid, would likely exceed $43,000.

The selection process consisted of the Village’s Chief Accountant, Jeanne Norville, and myself grading the proposals independently. Each proposal was evaluated and assigned points based on a number of criteria. These criteria included:

Mandatory Elements:
- The audit firm’s independence and license to practice in Colorado.
- The audit firm’s personnel receiving adequate continuing professional education in the last two years.
- Whether the audit firm had a conflict of interest with regard to any other work performed by the firm for the Village.
- Had the audit firm submitted its most recent external quality control review report?

Technical Elements:
- The firm’s past experience and performance on comparable government engagements.
- The quality of the firm’s professional personnel to be assigned to the engagement and the quality of the firm’s management support personnel available for technical consultation.
- Adequacy of proposed staffing plan for various segments of the engagement.
- Adequacy of sampling techniques and analytical procedures.
- Total price over the five year engagement.
The following provides the combined rating of each audit firm and corresponding first year and five year costs:

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<tr>
<th></th>
<th>SCORE</th>
<th>1st YR COST</th>
<th>5 YEAR COST</th>
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</thead>
<tbody>
<tr>
<td>1. Clifton Gunderson LLP</td>
<td>192 points</td>
<td>$37,528</td>
<td>$207,128 *</td>
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<tr>
<td>2. Swanhorst and Company</td>
<td>190 points</td>
<td>$33,000</td>
<td>$171,000</td>
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<tr>
<td>3. Gordon, Hughes and Banks, LLP</td>
<td>188 points</td>
<td>$31,500</td>
<td>$164,400 *</td>
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<tr>
<td>4. Johnson, Holscher &amp; Company</td>
<td>179 points</td>
<td>$28,500</td>
<td>$157,500</td>
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<tr>
<td>5. Bondi and Company</td>
<td>175 points</td>
<td>$37,500</td>
<td>$202,500</td>
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<tr>
<td>6. Reynolds Henrie and Associates, PC</td>
<td>160 points</td>
<td>$35,250</td>
<td>$203,250</td>
</tr>
<tr>
<td>7. Hiratsuko &amp; Schmitt</td>
<td>154 points</td>
<td>$40,000</td>
<td>$245,015 *</td>
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<tr>
<td>8. Logan, Thomas &amp; Johnson, LLC</td>
<td>144 points</td>
<td>$36,000</td>
<td>$195,400</td>
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* Five year cost estimated to include “single audit” services. “Single audit” is required when Federal grant receipts exceed $500,000 in a single year.

Although Clifton has a relatively higher cost, several factors elevated them above the other audit firms. First, Clifton is widely used by municipalities similar to the Village. Clifton is currently used by the City and County of Broomfield, Boulder County, and the Town of Parker. Clifton was utilized by the City of Westminster from 2000 to 2004. Clifton was extremely active in providing training to government finance officers in complying with governmental accounting standards. The Village did utilize Clifton (formerly Van Schooneveld) as its auditing firm from 1994 through 2001 and thus Clifton already has a strong understanding of Village financial practices. The Village made the change to Grant Thornton primarily as a practice in changing audit firms every number of years.

Clifton Gunderson’s first year price of $37,528 includes $5,168 for “Single Audit”. “Single Audit” is an additional audit that is required whenever an entity exceeds $500,000 in Federal grant revenue. The Village did exceed $500,000 in 2006 because of the Arapahoe/Boston/Clinton project. For comparison purposes, Grant Thornton’s original scheduled price of $43,000 did not include “Single Audit”. Therefore, re-bidding audit services a year early will save the Village in excess of $10,000.

Please be reminded that R.S. Wells LLC is owned by Clifton Gunderson LLP. City Council has had reservations in utilizing Clifton Gunderson in the past because of this relationship. The concern was primarily because of R.S. Wells managing a number of districts in which the Village could ultimately be entering into negotiations and/or disputes.

It should be noted for the record that the Village’s Chief Accountant, Jeanne Norville, was an employee of Clifton Gunderson prior to coming to the Village in 2000. Jeanne never served on the Greenwood Village audit when employed by Clifton Gunderson.

In the event Council does not select Clifton Gunderson as its auditing firm, staff recommends Swanhorst and Company as the alternate. Council should be reminded that Swanhorst and Company was not selected in 2002 because it had served as the auditing firm for the St. Vrain...
School District. As you recall, the St. Vrain School District financial crisis had surfaced just as the Village was making its selection. Swanhorst and Company is widely used and regarded in Colorado and currently provides audit services to the City of Lakewood, the City of Loveland, the City of Golden, and the City of Louisville. Swanhorst recently finished five years of service to the City of Boulder.

I am not familiar with Gordon, Hughes and Banks. However, this firm did receive strong references and would be acceptable if Council elected to not utilize either Clifton or Swanhorst.

All proposals are well within the $43,000 budgeted for in the 2007 Budget.

I will be available Monday night if you have any questions. My direct phone number is (303)486-8290.