

REQUEST FOR PROPOSAL

Auditing Services

BWZ0713

September 27, 2007

Dear Certified Public Accountant:

Enclosed is a Request for Proposal for professional audit services required by the City of Dallas for the fiscal years ending 9/30/07 through 9/30/09. If your firm desires to present a proposal, please submit by 2:00 p.m. October 17, 2007.

City of Dallas
c/o Purchasing Agent
1500 Marilla, Room 3FN
Dallas, TX 75201
(214) 670-3326

Presentations before the Finance, Audit and Accountability Committee for the firms short-listed will be conducted on Monday morning, October 22, 2007. A final selection will be made sometime after the presentations.

We look forward to your participation in this proposal process.

Sincerely,

David Cook
Chief Financial Officer

REQUEST FOR PROPOSAL
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I. Introduction

The City of Dallas is soliciting proposals from qualified certified public accounting firms for the City's annual audit requirements for the three fiscal years ending September 30, 2007 through September 30, 2009. These audits are to be performed in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards (2003) issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of states, local governments and non-profit organizations. After reviewing all proposals submitted, the City will notify those firms it wishes to consider further and will schedule oral presentations on October 22, 2007 before the Council's Finance, Audit and Accountability Committee, City staff and the City Auditor. The successful firm will be selected using the criteria identified in Section XI. The City reserves the right to reject any and all proposals submitted and to request additional information. It should be noted that the use of the auditor's opinion and audited financial statements is at the discretion of the City. The successful firm will be required, in the contract, to consent to the use by the City of the auditor's opinion and the City's audited financial statements in connection with City debt offering documents. For the past 9 years, KPMG, LLP has been the City's auditor with, currently, Marilou Martinez Stevens & Associates, Hopkins & Associates and Logan & Associates, P.C. through joint venture partnerships. The City's FY06 Comprehensive Annual Financial Report (CAFR) will be submitted for review to the Government Finance Officers Association of the United States and Canada (GFOA) in anticipation of being awarded the Certificate of Achievement for Excellence in Financial Reporting . Special assistance may be required by the auditors to meet the requirements of this program in submission of future CAFRs.

II. Minority Participation

The City of Dallas is committed to providing women-and minority-owned business enterprises with all available opportunities possible under the law. Compliance with the City's Good Faith Effort Plan is essential (please see attachment). We, therefore, encourage the prime contractor to extend an opportunity to qualified women and/or minority firms to participate in a joint venture agreement or as a

subcontractor(s) in the engagement. A list of Minority Business Enterprise firms, or other information or assistance can be obtained from:

Business Development & Procurement Services
City Hall
1500 Marilla, Room 3FN
Dallas, TX 75201
(214) 671-9814

III. Description of the City

The City of Dallas, incorporated in 1856, adopted the City Charter in 1907 and has had a Council-Manager form of government since 1931. The City's 2007 budget provides for \$2.03 billion in operating expenditures and \$540 million in capital improvements to furnish the full array of municipal services to its citizens.

IV. Audit Requirements

- A. The City Council is required by the City Charter to have an independent audit of "the books of account, records and transactions of all the administrative departments of the City." The City maintains numerous individual funds and groups of accounts to record these transactions. "Exhibit A" lists the reporting entities to be audited, by fund type, that comprise the City's Comprehensive Annual Financial Report and the present number of funds maintained for each type.
- B. "Exhibit B" lists the City's three pension plans, which are reported separately, with their respective report dates. Audits of the Dallas Police and Fire Pension System and Police and Fire Supplemental Pension Fund are not included as part of this request for proposal, but the funds are considered component units of the City. The audit of the Employees' Retirement Fund, however, is a part of this audit proposal.
- C. "Exhibit C" includes those funds requiring compliance audits as prescribed by other governmental agencies or revenue bond ordinances.
- D. Dallas Water Utilities (DWU) and Aviation Revenue (AVI) require separate audited financial

statements and a certificate of adequate net revenue coverage for each bond sale. Verification of arithmetical computation of adequacy of escrowed securities and interest will be required for DWU bond refunding as well as infrequent comfort letter(s) (last required in 1988). All such fees (except audit fees) should be separately stated.

- E. Auditor's review of the City's "Performance Report" is required within the normal course of the City's audit. The Performance Report contains consolidated financial statements prepared on the accrual basis of accounting. Separate fund and account group financial statements are not presented and all significant interfund transactions and balances are eliminated.
- F. A compliance audit is required of management controls on investments and adherence to the City's established investment policy and the Public Funds Investment Act.
- G. The City also requires the performance of a Single Audit (Schedule of Grant Expenditures) of federal, state and local grant funds as prescribed by the "Single Audit Act of 1984" as amended and the U.S. Office of Management and Budget (OMB) Circular A-133 and the State of Texas Single Audit Circular (the Circular) in accordance with the State Uniform Grant Management Standards. "Exhibit D" lists various federal, state and local agencies that currently provide grant funds to the City.
- H. A Management Recommendation Letter setting forth any weaknesses or opportunities for improvement in the City's operations and procedures must be provided as a result of the Auditor's study and evaluation of the City's system of internal accounting control. A written report of all irregularities and illegal, or indications of illegal, acts must be immediately given to the City Auditor, City Manager, Chief Financial Officer, Director of the Office of Financial Services, the City Controller and the City Attorney.

V. Required Auditor Communication with the City Auditor

- A. The Auditor will communicate certain independence matters to the City Auditor. In addition, the Auditor will provide information outlining any services other than auditing services that the Auditor performed for the City during the year under audit.
- B. Auditor will meet regularly (pursuant to an agreed upon schedule established at the beginning

of the audit) with the City Auditor and provide audit status updates. These updates will include, but are not limited to, the planned scope and timing of the audit, preliminary assessments of internal accounting and administrative controls, compliance with laws and regulations, as applicable, and adherence to accounting principles generally accepted in the United States of America.

- C. Auditor will provide the City Auditor electronic files of flowcharts, narratives, and other internal control documentation developed during the audit in a format that can be updated.
- D. If the Auditor determines that there is evidence that fraud may exist, the Auditor will bring this matter to the attention of the City Auditor. If the Auditor becomes aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, the Auditor will report this matter directly to the City Auditor.
- E. If illegal acts come to Auditor's attention, the Auditor will inform the City Auditor unless the illegal acts are clearly inconsequential.
- F. Auditor will inform the City Auditor of significant audit adjustments noted during the audit.
- G. Auditor will advise the City Auditor of material oral and written communications between management and Auditor.
- H. Auditor will communicate to the City Auditor any material weaknesses and reportable conditions that are noted during the course of its audit.

- I. Auditor will communicate to the City Auditor all significant deficiencies and material weaknesses in internal control over financial reporting that it identifies during the course of the audit.
- J. Auditor will communicate to the City Auditor all internal control deficiencies (that is, those deficiencies in internal control over financial reporting that are of a lesser magnitude than significant deficiencies) identified during the audit and not previously communicated by Auditor.

- K. Auditor may also communicate to the City Auditor other opportunities for economies in or improved controls over the City's operations.
- L. Auditor will communicate to the City Auditor the existence of any significant deficiency or material weakness as a result of ineffective oversight by the Finance, Audit & Accountability Committee for external financial reporting and internal control over financial reporting.
- M. Auditor will communicate certain matters related to the conduct and results of the audit to the City Auditor. Such matters include, when applicable,
- The auditor's views about the qualitative aspects and acceptability of the City's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.
 - Changes in the City's significant accounting policies and methods for accounting for significant unusual transactions or for controversial or emerging areas.
 - Difficulties encountered in performing the audit.
 - Uncorrected misstatements, other than those the auditor believes are trivial.
 - Material corrected misstatements that were brought to the attention of management as a result of audit procedures.
 - Disagreements with management, whether or not resolved.
 - The Auditor's level of responsibility under auditing standards generally accepted in the United States for the financial statements, for internal control, and for other information in documents containing the audited financial statements.
 - Unadjusted audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.
 - The basis for the Auditor's conclusions regarding sensitive accounting estimates.
 - Management's consultations with other accountants which the Auditor is aware of.
 - Major issues discussed with management prior to the Auditor's retention.

VI. Accounting Information

- A. The modified accrual basis of accounting is used for all governmental fund types; revenues

are recorded when measurable and available.

- B. Expenditures are recorded when incurred as fund liabilities according to generally accepted accounting principles.
- C. All proprietary fund types use the accrual basis of accounting, and economic resources measurement flows.
- D. All funds are restated to the accrual basis of accounting and economic resources measurement focus for the government-wide financial statements. The City budget represents departmental appropriations authorized by the annual appropriation ordinance and as revised by the City Council during the fiscal year. Appropriations, estimated revenues and encumbrances are recorded in the accounting records.
- E. Financial System
 - 1. The City uses the integrated accounting system Advantage version 3.5, a product of CGI-AMS, Inc., Fairfax, Virginia. Advantage is a financial management system which provides general ledger functions including encumbrance and budget controls, and modules for purchasing, fixed assets, inventory management, and job cost.

The Lawson Human Resources Information System interfaces with Advantage and is not part of the integrated system. Various other billing and cash receipts systems also interface with Advantage.

- 2. Approximately 25,000 journal vouchers are entered annually by approximately 1,000 data entry personnel and general system users. Another 50,000 transactions annually are input as interface files from 'feeder' systems such as payroll, water utilities customer information accounting billing system, license and permit billing systems, equipment services billing, telephone billing, interest distribution, and inventory systems.
- 3. The accounting structure of Advantage includes approximately:
 - a) 1,019 Funds
 - b) 7,527 Units

- c) 1,006 Balance Sheet Accounts
 - d) 672 Expenditure Object Categories
 - e) 982 Revenue Source Categories
4. The City processes about 105,000 payment vouchers annually resulting in approximately 85,000 checks. (Multiple vouchers to the same vendor on the same day combine into a single check.) The City also processes approximately 9,400 wire transfers per year.
5. The Advantage Financial data base consists of four components, all of them Oracle tables:
- a) Document Catalog contains all documents which were processed. Documents may be archived, but encumbrances which are still open will not be archived.
 - b) Tables contain chart of accounts, configuration options and various repositories of information, such as vendors.
 - c) Journals contain chronological accounting activity in detail.
 - d) Ledgers contain summary-level accounting data.
6. Documentation for the City's systems, policies, and procedures is provided by various manuals including:
- a) Administrative Directives Manual
 - b) Advantage Information Guide
 - c) Advantage Financial User Guides
 - d) Human Resources Information System (HRIS) Manual
 - e) Records Management Manual
 - f) Personnel Rules
 - g) Online help for pages and individual fields
 - h) City Charter

F. Centralized Computer Center

The City of Dallas has a Centralized Computer Center. The Advantage financial system is

supported, as follows:

- a) Four Sun V480 servers, Solaris 9: Database, Vendor Self-Service, Web/Application and Test.
- b) The application is written in Java. IBM Websphere serves HTML pages to standard web browsers on the Intranet.
- c) The database is Oracle 9i.
- d) The data extraction tool is Oracle PL/SQL (SQL Plus), or other database utilities.
- e) The end-user reporting tool is InfoAdvantage (a vendor-provided configuration of Business Objects), which runs on a Wintel platform.
- f) A separate fleet management and inventory system runs on an ALPHA 4100.

VII. Assistance Available to Auditors

The City Controller's Office staff will prepare workpapers, provide document research and make available training aids for orientation of the auditor's staff.

VIII. Proposal Requirements

Each firm should submit their proposal in twenty copies. Items to be included are:

A. Table of Contents

Include a clear identification of the material submitted by section and by page number.

B. Scope of Service Section

Clearly describe the scope of the required services to be provided defined in terms of both financial statement audit and compliance audit.

C. Audit Staff

Identify the responsible partner(s) and appropriate partner, manager, and other supervisors who will work on the audit, including staff from other than the local office. Resumes for each should be included, including specific governmental experience and whether they are licensed to practice as a Certified Public Accountant in the State of Texas. The depth of the staff available should be included and the firm's intent regarding continuity of assigned staff during future years. Also indicate any joint venture or subcontractor participation by other audit firms and staff profiles as appropriate. State whether the proposed staff have received continuing professional education in governmental accounting and auditing during the last two years.

D. Audit Approach

Clearly describe your firm's approach to conducting the audit. Include in this description your proposed utilization of City staff, methodology for accomplishing the varied audit requirements in a timely and efficient manner and any special techniques you may employ to facilitate the first year engagement. Also include proposed segmentation of the engagement, level of staff assigned to each segment, approach to determining sample sizes, approach to determining compliance with laws and regulation, and the approach to be used in gaining an

understanding of the internal control structure. It is the City's goal to issue audited financial statements within 120 days after the fiscal year end. Therefore, indicate procedures and/or work schedules that would be used to facilitate the completion of the audit within this time frame in the first and subsequent two years.

E. Identify any potential audit problems, the firm's approach to resolving these problems, and any special assistance that will be requested from the City.

F. Profile of the Firm

State whether your firm is local, national or international. State whether your firm is independent as defined by applicable auditing standards. Give the location of the office from which the work is to be done and the number of partners, managers, supervisors, seniors and other professional staff employed at that office and your proposed billing rates for each.

G. List of all lawsuits, either pending as of January 2002 or filed since that date, including subject matter and status. Disclose any disciplinary action brought against your firm or employees by state regulators, bodies, or professional organizations during the past five years.

H. Governmental Experience

Describe recent experience in governmental auditing, pension fund auditing, Single Audit, and grant auditing similar to the type requested and emphasize any local office engagements. Include whether those clients received the GFOA certificate for excellence in financial reporting for each of the years the client was served by your firm. Provide as references the names and telephone numbers of client officials responsible for those audits.

I. Compliance with Auditing Standards Generally Accepted in the United States of America.

State whether your firm intends to comply with auditing standards generally accepted in the United States of America and the standards applicable to financial auditing committees in the Government Auditing Standards (2003) issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of states, local governments and non-profit organizations, auditing standards generally accepted in the United States of America and the standards applicable to financial auditing committees in the Government Auditing Standards

(2003) issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of states, local governments and non-profit organizations, including special reporting on internal controls and on compliance with applicable laws and regulations. State whether your firm has complied with applicable requirements for external quality control review and continuing professional education. Include a copy of the report on the firm's most recent external quality control review with a statement whether that review included a review of specific government engagements. State also whether your firm has complied with continuing professional education in governmental accounting and auditing as specified by the GAO.

J. Additional Data

The successful proposer will be required to purchase, and maintain during the term of the contract, insurance as described in "Exhibit F". Give any additional information considered essential to this proposal, including involvement in state and local government organizations, seminars, etc. Indicate any planned participation by certified women- or minority-owned firms. Indicate your availability in providing a minimum of 16 hours of continuing professional education annually for the City's professional accounting staff. Indicate your firm's availability for providing year round accounting, financial management systems, and pension/actuarial consultation. Indicate the degree of significance your firm attaches to the "management letter" provided after each audit regarding the City's procedural operations.

K. Audit Fees

Provide a fee estimate for the City's requirements which indicates:

- 1) the fee and estimated hours for the audit of the Comprehensive Annual Financial Report (CAFR) only.
- 2) a combined fee and estimated hours for the simultaneous audit of the CAFR and Schedule of Grant Activity (Single Audit).

- 3) The fee and estimated hours for the audit of the Employees' Retirement Fund.
- 4) the fee and estimated hours for past audit review of the City's official statement in conjunction with its bond offerings.
- 5) the fee and estimated hours for verification of arithmetical computation of adequacy of escrowed securities and interest for DWU bond refunding and infrequent comfort letter(s) (last required in 1988).
- 6) the maximum percentage increase in 1), 2), 3), 4) and 5) that can be anticipated in subsequent years (see Section IX).
- 7) Hourly rates for services which may be requested outside the scope of the audits for each of the following: Partner, Manager, Senior Accountant, and Staff Accountants.

IX. Selection Process

The Finance, Audit and Accountability Committee of the City Council will review the proposals, choose the firms for oral presentations on October 22, 2007 and select the firm it deems most qualified.

X. Contract

The professional audit firm selected by the City to perform this service will be required to sign a contract prepared by the City Attorney's Office (sample contracts are provided). Any modifications to the contract should be addressed in the proposer's response to this RFP. Modifications to the contract are subject to review and approval by the City Attorney's Office. The contract will be a three-year contract.

XI. Criteria for Evaluation

The criteria for evaluation will include, but not be limited to, the following areas with the approximate weightings as noted:

- | | | |
|----|---|----|
| A. | Prior governmental auditing experience | 30 |
| | - current governmental clients | |
| | - experience in comparable auditing/Single Audit | |
| | - quality assurance review - unqualified opinion | |
| | - participation in governmental organizations and agencies
such as GFOA and state municipal leagues and associations | |
| B. | Qualifications of staff to be assigned to the audit | 25 |
| | - qualifications and experience in municipal auditing | |
| | - extent of continuing education received by staff | |
| | - size of local office | |
| | - extent of on-site staff experienced and qualified in EDP auditing | |
| C. | Audit approach | 15 |
| | - extent of City staff utilization during engagement | |
| | - reasonableness of audit timetable | |
| | - reasonableness of audit hours | |
| | - adequacy of sampling techniques and analytical procedures | |
| D. | Fees | 30 |

If you have any questions prior to the pre-proposal conference, please contact Jan Hollins (214) 671-8149 or email jan.hollins@dallascityhall.com

Reporting Entities to be Audited

<u>Fund Type</u>	
Governmental Funds:	
General Fund	26
Debt Service	4
Special Revenue Fund	611
Capital Project Fund	231
Permanent Fund	5
Internal Service Funds:	
Equipment Services	1
Communication Services	2
Office Services	2
Information Systems	1
Risk Funds	8
Enterprise Funds:	
Water Utilities	63
Convention Center	21
Airport	12
Municipal Radio	2
Building Inspection	1
Fiduciary Funds	
Agency Fund	21
Pension Trust Fund	3
Other	
General Fixed Assets	2
General Long-Term Debt	1
Component Units	2

Note: number of funds may change based on new requirements through the end of the current fiscal year.

- * Separate audited financial statements are prepared for Dallas Water Utilities, Aviation Revenue Fund, Cityplace TIF, and Downtown Dallas Development Authority for financial disclosure in official statements relating to bond sales. In addition, audits for the past 3 years would be required for Oak Cliff Gateway TIF if bonds are sold.

City Retirement Funds to be Reported Separately

<u>Pension Plan</u>	<u>Report Date</u>
Employees' Retirement Fund	12/31
Dallas Police and Fire Pension System	12/31
Police & Fire Supplemental Pension Fund	12/31

Funds Requiring Compliance Audit

<u>Fund</u>	<u>Compliance Required By</u>	<u>Report Date</u>
Federal/State Grants	Single Audit Act of 1984	9/30
Water Utilities	Revenue Bond Ordinance	9/30
Convention Center	Revenue Bond Ordinance	9/30
Airport Revenue	Revenue Bond Ordinance	9/30

Agencies Providing Grant Funds to City of Dallas

Agencies Providing Grant Funds to City of Dallas

U.S. Department of Agriculture
U.S. Department of Commerce
U.S. Department of Education
U.S. Department of Health and Human Services
U.S. Department of Homeland Security
U.S. Department of Housing and Urban Development
U.S. Department of Interior, National Park Services
U.S. Department of Justice
U.S. Department of Transportation
U.S. Army Corps of Engineers
U.S. Environmental Protection Agency
Texas Department of Agriculture
Texas Department of Health
Texas Department of Transportation
Tax Allocation Section of State Comptroller's Office
Texas Automobile Theft Prevention Authority
Texas Commission on Alcohol and Drug Abuse
Texas Commission on Environmental Quality
Texas Commission on the Arts
Texas Engineering Extension Services
Texas Health and Human Services Commission
Texas State Library and Archives Commission
Texas Water Development Board
Texas Workforce Commission
State of Texas Comptroller of Public Accounts
State of Texas Office of the Attorney General
National Association of County and City Health Officials
National Endowment for the Arts
National Endowment for Humanities
National Highway and Traffic Safety Administration
North Central Texas Council of Government
Institute of Museum and Library Services
Federal Aviation Administration
Governor's Office of General Council and Criminal Justice