



October 27, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Evaluation of Independent Auditor and Consideration of Contract Amendment to Extend Audit Services through the Fiscal Year Ending June 30, 2023

Overview

On January 28, 2019, the Orange County Transportation Authority Board of Directors approved an agreement with Crowe LLP, to provide independent annual financial auditing services for a three-year initial term with one, two-year option term. The Internal Audit Department has prepared an evaluation of Crowe LLP, and based on the evaluation, is recommending continuing the auditing services. Board of Directors' approval is requested to exercise the option term effective April 1, 2022 through March 31, 2024.

Recommendations

- A. Approve draft evaluation questions and comments compiled by the Internal Audit Department for the Finance and Administration Committee.
- B. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 3 to Agreement No. C-8-1911 between the Orange County Transportation Authority and Crowe LLP, to exercise the two-year option term, in the amount of \$592,200, to provide the annual financial and agreed-upon procedures audits for the fiscal years ending June 30, 2022 and 2023. This will increase the maximum obligation of the agreement to a total contract value of \$1,497,861.

Discussion

Crowe completed independent financial audits of OCTA for the fiscal years (FY) ended June 30, 2019, 2020, and 2021. The contract's option term will be for

independent audit services for the FYs ending June 30, 2022 and 2023. A decision as to whether to exercise the option term should be made through a recommendation by the Finance and Administration Committee (Committee), in its audit committee capacity, to the Board.

The American Institute of Certified Public Accountants (AICPA) recommends audit committees utilize a checklist developed by the Chartered Global Management Accountant group to evaluate its independent auditors. The tool suggests that input be obtained from various sources including the audit committee, Internal Audit, and management. Internal Audit has drafted responses on behalf of the Committee and will incorporate any changes the Committee provides. Internal Audit has also provided comments relative to management and Internal Audit's relationship and experience with Crowe. The draft checklist is provided as Attachment A. Based on the responses, Crowe has provided service to OCTA that meets expectations throughout the term of the agreement. Exercising the option term of the agreement will allow Crowe to provide independent audit services of OCTA's financial statements for the FYs ending June 30, 2022 and 2023.

Procurement Approach

This procurement was handled in accordance with OCTA's Board-approved procedures for professional services that conform to both federal and state laws. The original agreement was awarded on a competitive basis and includes a three-year initial term for \$888,300 and one, two-year option term. The initial term of the agreement expires on March 31, 2022, as shown in Attachment B.

The proposed Amendment No. 3 is to exercise the option term of the agreement through March 31, 2024. The budget for the amendment is \$592,200, which is based on firm-fixed rates and current usage for annual auditing services, bringing the total contract value to \$1,497,861. There was no escalation negotiated in the original contract. Therefore, the firm-fixed rates for the option term remain the same as the initial term. Exercising the option term will allow for continued auditing services through March 31, 2024.

Fiscal Impact

Funds to exercise the option term were included in OCTA's FY 2021-22 Budget, account nos. 1610-7512-A0001-N1O, 0036-7152-B0001-N1O, and 0017-7512-M0201-N1O.

**Evaluation of Independent Auditor and Consideration of
Contract Amendment to Extend Audit Services through the
Fiscal Year Ending June 30, 2023**

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Summary

Staff recommends the Board of Directors authorize the Chief Executive Officer to negotiate and execute Amendment No. 3 to Agreement No. C-8-1911 with Crowe LLP, to exercise the option term, in the amount of \$592,200, to provide audit services for the fiscal years ending June 30, 2022 and 2023.

Attachments

- A. Evaluations of Independent Auditors
- B. Crowe LLP, Agreement No. C-8-1911, Fact Sheet

Approved by:



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Evaluations of Independent Auditors

Overview: As a best practice, the audit committee has the responsibility to hire, compensate, evaluate, and terminate the independent auditor (auditor). In discharging this responsibility, the audit committee should answer a series of questions about the quality and performance of the auditor, and should obtain input from others in the government entity, including management and internal audit.

The sample questions included in this tool are only a starting point for evaluating the performance and effectiveness of the internal audit function. Audit committee members should ask follow-up questions as appropriate and required. For some governmental entities, the independent auditor may be from another government entity. If this is the case, while the audit committee and government entity management would not have the authority to hire and terminate the independent auditor, most of these questions would still be applicable in being able to provide feedback around the performance and effectiveness of the independent auditor.

Questions for Audit Committee Members

| Evaluation of the Independent Auditor | Yes | No | N/A | Comments |
|---|-----|--------------------------|--------------------------|---|
| Quality of Resources and Services | | | | |
| 1. Does the audit team have the knowledge and skills necessary to meet the government entity’s audit requirements, including specialized skills and knowledge of the specific government sector or enterprise? (Consider the following questions in making this determination: (1) Does the auditor have experience with entities similar to yours? (2) Does the auditor have experience with performing the type of audit that your organization needs | X | <input type="checkbox"/> | <input type="checkbox"/> | Crowe LLP (Crowe) employs over 4,300 professionals and is the ninth-largest certified public accountant firm in the United States. They maintain 35 offices across the US with six offices throughout California. Crowe deeply specializes in serving public transportation and transit entities and have provided services to over 50 transportation clients, including Los Angeles Metro, San Diego Association of Governments, Metropolitan Transportation Commission, Alameda-Contra Costa Transit, Chicago RTA, Metropolitan Atlanta Rapid |

| Evaluation of the Independent Auditor | Yes | No | N/A | Comments |
|--|-----|--------------------------|--------------------------|--|
| <p>(e.g., under Government Auditing Standards, single audit requirements, or a specific federal audit guide). (3) Does it appear that the auditor is committed to quality (e.g., participation in the peer review process, participation in other quality control programs like the AICPA’s <i>Governmental Audit Quality Center</i>, etc.)? (4) Are the auditor and firm licensed and independent?)</p> | | | | <p>Transit Authority, and Dallas Area Rapid Transit. The engagement partner, Kathy Lai, is a licensed public accounting professional with over 20 years’ experience. She is the “partner-in-charge” for a number of government clients including cities, counties, transportation agencies, and special districts. The firm last obtained a triennial peer review of its system of internal quality control in December 2019 and received a “pass” rating. The firm is licensed and independent. Crowe also is a member of the Association of Certified Public Accountants (AICPA) Government Audit Quality Center (GAQC) and has firm representatives on the AICPA GAQC Executive Committee and also the AICPA State and Local Government Expert Panel.</p> |
| <p>2. Has the auditor adequately identified the appropriate risks considered in the planning of the audit, including tone at the top, fraud, governance matters, and risk of management override of controls?</p> | X | <input type="checkbox"/> | <input type="checkbox"/> | <p>Crowe considers OCTA’s Code of Conduct, fraud hotline activity and administration, internal control environment, and its policies and procedures when assessing risk for the organization. The evaluation includes consideration of the risk of management override of controls.</p> |
| <p>3. Are you satisfied with the auditor’s planning, execution, and communication related to the audit, including the scope, nature, extent and timing?</p> | X | <input type="checkbox"/> | <input type="checkbox"/> | <p>Crowe provides written communication to the Finance and Administration (F&A) Committee and the Board of Directors (Board) related the planning and scope of its audits. They also solicit input from Board Members as to any information material to the financial statements.</p> |
| <p>4. Does the audit team leverage the work performed by internal audit, management, or government auditors for the audit or reporting of internal control over when determining the work needed for the audit of the financial statements?</p> | X | <input type="checkbox"/> | <input type="checkbox"/> | <p>Crowe’s audit team obtains and reviews internal audit activities and reports, as well as any outside agency audits and uses this information to determine the level of work needed for the audit.</p> |

| Evaluation of the Independent Auditor | Yes | No | N/A | Comments |
|--|-----|--------------------------|--------------------------|---|
| 5. Do the auditor's written reports to the committee cover all appropriate issues adequately, giving consideration to the accounting framework used and requirements of relevant auditing standards, as well as elements required by the auditor contained in the committee charter? | X | <input type="checkbox"/> | <input type="checkbox"/> | Crowe's written reports are issued in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. |
| 6. Has the auditor presented the committee with the audit organization's latest peer review report? If findings are noted within the report(s), has the auditor communicated the resolution | X | <input type="checkbox"/> | <input type="checkbox"/> | Crowe provided copies of its peer review report at the time of procurement and results were considered as part of the evaluation process. In addition, Internal Audit obtains future peer review reports from the firm and any rating less than a "pass" are communicated to the F&A Committee and the Board. |
| 7. Has the auditor evidenced that it is committed to quality (e.g., participation in the peer review process, participation in other quality control programs, internal quality assurance programs that ensure an adequate representation of governmental audits, etc.). | X | <input type="checkbox"/> | <input type="checkbox"/> | As stated above, Crowe participates in the peer review process and submits copies to Internal Audit. |
| Quality of Communications | | | | |
| 8. Does the auditor communicate issues openly, and in a complete and understandable way? | X | <input type="checkbox"/> | <input type="checkbox"/> | During both the interim and final audit periods, Crowe conducts weekly status meetings with management. Final audit results, along with any Management Letter comments are provided to the F&A Committee and the Board. |

| Evaluation of the Independent Auditor | Yes | No | N/A | Comments |
|---|-----|--------------------------|--------------------------|---|
| 9. Does it appear that the auditor is free from undue influence by management, and that the auditor is comfortable raising issues that would reflect negatively on management? | X | <input type="checkbox"/> | <input type="checkbox"/> | Procurement of the independent financial statement auditor is under the duties of the F&A Committee, and the Board. This arrangement helps ensure the auditor is not subjected to undue influence and is entitled to request direct communication with Board Members. |
| 10. Does the auditor take advantage of an executive session appropriately, if permitted by law, by discussing any sensitive issues professionally, candidly, and in a timely manner? | X | <input type="checkbox"/> | <input type="checkbox"/> | As stated above, Crowe issues final audit reports and results, in writing to the F&A Committee and the Board. |
| 11. Does the auditor communicate, or ensure that management communicates, relevant developments in accounting principles and auditing standards that could affect the government entity? | X | <input type="checkbox"/> | <input type="checkbox"/> | Crowe includes discussion of recent accounting standards as part of its written financial statement audit reports. |
| 12. Does the auditor volunteer constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the government entity's internal controls? | X | <input type="checkbox"/> | <input type="checkbox"/> | Crowe includes written descriptions of any material weaknesses and/or significant deficiencies identified during the financial statement audits in writing, along with recommendations, and presents these to the F&A Committee and the Board. |
| Independence and Objectivity | | | | |
| 13. Considering all audit-related and non-audit services performed by the auditor, are you satisfied that the auditor | X | <input type="checkbox"/> | <input type="checkbox"/> | |

| Evaluation of the Independent Auditor | Yes | No | N/A | Comments |
|--|-------------------|---|---|--|
| <p>remains independent and objective both in fact and appearance?</p> <p>14. Are you satisfied that the auditor reports all matters openly to the committee that might be thought to bear on the audit organization's independence?</p> <p>15. Based on the nature of the auditor's answers to questions posed by the committee, do you feel confident that the auditor maintains appropriate objectivity and professional skepticism?</p> | <p>X</p> <p>X</p> | <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> | <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> | <p>In addition to written communications, Crowe is available and has provided presentations to the F&A Committee on the results of its audits. Questions by Committee and Board members are fully addressed and indicate demonstrated objectivity and professional skepticism.</p> |
| Final Evaluation | | | | |
| <p>16. Based on your assessment and the results of other consultations with management and internal auditors, if applicable, would you rehire the auditor to conduct future audits? If yes, what changes would you make, if any? If no, why not?</p> | <p>X</p> | <p><input type="checkbox"/></p> | <p><input type="checkbox"/></p> | <p>Based on results thus far, Crowe would be considered for rehire. No specific changes would be requested at this time.</p> |

Questions for Management and/or Internal Audit

In addition to the questions above, following are questions the audit committee may ask of government entity's personnel such as the CAE, Government Entity Head, CFO, controller, or general counsel, to assist in evaluating the performance of the auditor.

| Evaluation of the Independent Auditor | Yes | No | N/A | Comments |
|--|--------------------------|--------------------------|--------------------------|--|
| 1. Does the auditor work with internal audit to ensure the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources? | X | <input type="checkbox"/> | <input type="checkbox"/> | Each year, Crowe requests information from Internal Audit regarding activities and reports and considers these as part of the overall assessment of controls and risk. Internal Audit is included in status meetings and consulted, as necessary, on audit issues and recommendations. |
| 2. <i>a.</i> Are you satisfied with the knowledge, skills, and abilities of the staff assigned to do the audit work? | X | <input type="checkbox"/> | <input type="checkbox"/> | The Crowe team demonstrate the knowledge, skills, and abilities required to perform these services. |
| <i>b.</i> Are you satisfied with the performance of the engagement leadership assigned, including the partner(s), manager(s), director(s), and fieldwork leaders? | X | <input type="checkbox"/> | <input type="checkbox"/> | Because there are several layers of management within the firm and many issues require review by the firm's national office, it can take a long time to get certain decisions made. |
| 3. Was the work with the auditor conducted in the spirit of professionalism and mutual respect? | X | <input type="checkbox"/> | <input type="checkbox"/> | The team conducts themselves with professionalism. |
| 4. <i>a.</i> Are you aware of any other information that might impair the independence of the independent auditor? | <input type="checkbox"/> | X | <input type="checkbox"/> | |

| Evaluation of the Independent Auditor | Yes | No | N/A | Comments |
|---|--------------------------|--------------------------|--------------------------|--|
| <p><i>b.</i> Are you aware of any individuals on the audit team who might not be independent with respect to the government entity for whatever reason?</p> | <input type="checkbox"/> | X | <input type="checkbox"/> | |
| <p>5. <i>a.</i> If the choice were yours, would you hire the independent auditor to conduct future audits?</p> | X | <input type="checkbox"/> | <input type="checkbox"/> | |
| <p><i>b.</i> If yes, what changes would you make, if any? If no, why not?</p> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | As stated above, a streamlined approach to review and approval by the national office. |

**Crowe LLP
Agreement No. C-8-1911
Fact Sheet**

1. January 28, 2019, Agreement No. C-8-1911, \$888,300, approved by the Board of Directors (Board).
 - Agreement to provide independent annual financial auditing services.
 - Initial term effective March 20, 2019 through March 31, 2022, with one, two-year option term.
2. May 15, 2020, Amendment No. 1, Agreement No. C-8-1911, \$11,832, approved by the Contracts Administration and Materials Management (CAMM).
 - Additional budget for work associated with Transportation Development Act claimant audits.
3. February 10, 2021, Amendment No. 2, Agreement No. C-8-1911, \$5,529, approved by CAMM.
 - Additional budget for work associated with agreed-upon procedures for National Transit Database reporting.
4. November 8, 2021, Amendment No. 3, Agreement No. C-8-1911, \$592,200, pending approval by Board.
 - Exercise the option term of the agreement effective April 1, 2022 through March 31, 2024.

Total committed to Crowe LLP, under Agreement No. C-8-1911: \$1,497,861.